ADVANCED ENVIRONMENTAL RECYCLING TECHNOLOGIES INC
Form 10-K
March 06, 2014

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

Form 10-K

þ	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
o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-10367

Advanced Environmental Recycling Technologies, Inc.
(Exact name of Registrant as specified in its charter)

Delaware (State of Incorporation)	71-0675758 (I.R.S. Employer Identification No.)
914 N Jefferson Street Springdale, Arkansas (Address of principal executive offices)	72764 (Zip Code)

Registrant's telephone number, including area code:
(479) 756-7400

Securities registered pursuant to Section 12(b) of the Act:
None

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

Class A common stock, $.01 par value
(Title of Class)

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

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

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 þ No o

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 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. o

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No þ

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the closing stock price of such common equity as of the last business day of the registrant's most recently completed second fiscal quarter was $13,490,594 (for the purposes hereof, directors, executive officers and 10% or greater shareholders have been deemed affiliates).

Number of shares of common stock outstanding at February 27, 2014: Class A — 88,165,632; Class B — 1,465,530

DOCUMENTS INCORPORATED BY REFERENCE

Portions of our Definitive Proxy Statement for our 2014 annual meeting scheduled to be held on June 19, 2014, and expected to be filed within 120 days of our fiscal year end, are incorporated by reference into Part III.

Table of Contents

PART I	1
Item 1. Business.	1
Item 2. Properties.	5
Item 3. Legal Proceedings.	5
Item 4. Mine Safety Disclosure.	5
PART II	6
Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.	6
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.	7
Item 8. Financial Statements.	12
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.	12
Item 9A. Controls and Procedures.	13
Item 9B. Other Information.	13
PART III	14
Item 10. Directors, Executive Officers and Corporate Governance.	14
Item 11. Executive Compensation.	14
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.	14
Item 13. Certain Relationships and Related Transactions, and Director Independence.	14
Item 14. Principal Accountant Fees and Services.	14
PART IV	15
Item 15. Exhibits and Financial Statement Schedules.	15
SIGNATURES	16
INDEX TO FINANCIAL STATEMENTS	F-1

PART I

Item 1. Business.

Summary

Advanced Environmental Recycling Technologies, Inc. (AERT or the Company), founded in 1988, develops and commercializes technologies to recycle waste polyethylene plastics and develops, manufactures, and markets value-added, green building compounds. Our primary products are composite building materials that are used in place of traditional wood or plastic products for exterior applications in building and remodeling homes and for certain other industrial or commercial building purposes. Our products are made primarily from approximately equal amounts of recycled polyethylene plastic, which has been cleaned, processed, and reformulated and waste wood fiber, which has been cleaned, sized and reprocessed utilizing our patented and proprietary technologies. Our products have been extensively tested, and are sold by leading national companies such as the BlueLinx Corporation (BlueLinx), Lowe's Companies, Inc. (Lowe's) and Therma-Tru Corporation. Our products are primarily used in renovation and remodeling by consumers, homebuilders, and contractors as an exterior environmentally responsible ("Green") building alternative for decking, railing, and trim products.

The Company currently manufactures all of its composite products at extrusion facilities in Springdale, Arkansas. The Company operates a plastic recycling, blending and storage facility in Lowell, Arkansas, where it also leases warehouses and land for inventory storage. The Company operates a plastic recycling, cleaning, and reformulation facility at Watts, Oklahoma. The Company also leases a warehouse in Westville, Oklahoma for inventory storage.

Products

Building on our base process and materials, we manufacture the following product lines:

- Commercial and residential decking planks and accessories such as balusters and handrails under the MoistureShield® and ChoiceDek® brands,
- Exterior door components,
- Exterior housing trim (MoistureShield®), and
- Green recycled plastic resin compounds.

The wood fiber content of our products gives them many properties similar to all-wood products, but we believe that the plastic content renders our products superior to both all-wood or all-plastic alternatives because:

- Unlike wood, our products do not require preservatives or treatment with toxic chemicals or annual sealing or staining.
- Our products are less subject to thermal contraction or expansion and have greater dimensional stability than competing all-plastic products.
- Our products are engineered for superior moisture-resistance and will not decompose like wood.
- Our products are designed and extruded through dies to a desired shape in accordance with customer specifications, which helps the customer to minimize waste.

- Our products are less subject to rotting, cracking, warping, splintering, insect infestation, and water absorption than conventional wood materials.

- Our products are aesthetically enhanced to provide a wood-like or grained surface appearance.

- Our products are combined with coloring agents and/or other additives to provide various colors and aesthetics.

1

- Since 2006, our product has contained a mildew-cide to inhibit the growth of mold.
- Our latest generation of products offers colors to more closely resemble the natural look of wood.

Based upon our extensive product testing and successful extended field history, we offer a 25-year limited replacement warranty on our ChoiceDek® Foundations™ and a limited lifetime replacement warranty on our MoistureShield® products against rot and fungal decay, and termite and insect damage.

Marketing and Sales

General Market Strategy. Our products are designed for applications where we can add the greatest value and address market needs, i.e., for external applications where wood is prone to rot and/or requires substantial annual maintenance in the form of staining or sealing. Though we believe there are many possible applications for our wood/plastic composite technology, we have focused our resources and personnel on outdoor decking and handrail components and door and other OEM components; that represent the most attractive market opportunities at this time. Within our chosen markets, we are constantly working to develop and improve strong customer relationships.

Sales and Customer Service. We provide sales support and customer service through our own marketing department, contract marketing through outside commissioned representatives, through BlueLinx, and through training programs for our customers and their sales associates. We also promote our decking products through interactive displays at national, regional, and local home and garden shows, as well as through in-store displays. Our in-house sales and customer support team is focused on serving commercial decking contractors and customers, and supporting the sales professionals at our regional building products distributors, as well as BlueLinx and Lowe's. Information and customer service are provided through the websites www.choicedek.com and www.moistureshield.com, and through a national toll-free customer assistance telephone number: 1-800-951-5117.

Cyclical Nature of Building Products Industry. Our products are used primarily in home improvement and new home construction. The home improvement and housing construction industries are subject to significant fluctuations in activity and periodic downturns caused by general economic conditions. High fuel prices, reduced disposable income, and economic uncertainty in particular can lead to reduced home improvement activity. Reductions in such activity have an adverse effect on the demand for our products. We have focused a large portion of our business on the remodel and repair market segment, which we believe is less cyclical than the new homebuilding market.

Facility Upgrades/Product Innovation. In our ongoing pursuit to satisfy our customers and to keep up with changing trends in the marketplace, we continuously work to develop new products and improve existing products. We have invested significantly in plastic recycling technology and infrastructure over the last several years, which is also a strategic initiative designed to help insulate our raw materials purchasing from wide price swings associated with the petrochemical markets. The aesthetics of our products, which are overwhelmingly composed of recycled materials, have improved with technology advances. The startup of our next-generation Watts, Oklahoma recycling facility allows us to expand into additional customer-driven opportunities.

The composite decking business is continuously evolving. The technology used to manufacture wood/plastic boards has advanced significantly over the last several years, and many contemporary products have much improved aesthetics. Going forward, it will be important for AERT to continue to innovate, keep in close touch with consumer trends and focus on regional market trends while always remaining competitive with wood decking.

Innovation

We are committed to becoming the leader in green building products from recycled plastic materials. In addition, we believe plastic recycling technologies could lead to new opportunities in the future. Our Watts, Oklahoma facility,

which is designed to recover, utilize, and convert lower grades of waste plastics into usable feed stocks, is an example of our efforts to continually improve our recycling technology. By utilizing technology, we are upgrading the quality and aesthetics of our products made primarily from recycled raw materials to levels comparable to virgin resin based products.

Green Building Products

We have been recycling plastic and manufacturing green building products since our inception in 1988, and we intend to continue building our brands and differentiating AERT as a green building products company. Listed below are the major categories of products we manufacture and markets we supply.

ChoiceDek® Decking. We currently sell our ChoiceDek® branded decking products in the home improvement warehouse (HIW) market through BlueLinx to Lowe's. We derived a majority of our revenue (64%) from BlueLinx (our distributor for ChoiceDek® products) in 2013. This market segment primarily focuses on the do-it-yourself (DIY) market in which homeowners buy, build, and install their own decks. The ChoiceDek® brand is sold exclusively to Lowe's. ChoiceDek® is promoted through in-store displays and an ongoing print and marketing campaign targeting the residential decking market. We maintain a nationwide sales and customer service group. Lowe's also conducts national print and television ads for the products it carries. ChoiceDek® introduced its new line, ChoiceDek® Foundations™ in 2012. This newly engineered product provides better fade performance than our previous product and features a smaller profile, making it more lightweight and easier to handle.

MoistureShield® Decking. Our MoistureShield® brand line of decking products is currently sold to select primary distributors, who re-sell it to lumber dealers and contractor yards for sale to local deck builders and home builders. One international distributor accounted for 10% of our sales in 2013. Most of our MoistureShield® customers are regularly purchasing, or have been exposed to, competing brands of composite decking. On this higher end segment, we believe success will require converting customers from competing products to our brands. The MoistureShield® decking line allows us to diversify our customer base.

Door Component Products. We sell our MoistureShield® industrial products to door manufacturers for use as component parts in products. For example, we manufacture door rails built into doors by Therma-Tru Corporation. In marketing these products, we emphasize the value-added feature of the MoistureShield® composite product, which, unlike competing wood products, can be engineered to incorporate certain desired end-product characteristics that save our customers time and expense. Customers also avoid the need for chemical treatments to their final product, which are often otherwise necessary to prevent rot and sustain durability. The durability of our MoistureShield® composite components allows our customers to extend the lifetime or warranties of their products while reducing or eliminating warranty claims costs. We are unable to predict the future size of the markets for MoistureShield® industrial products; however, we believe that the national door and window and commercial and residential trim markets are large and will allow us to diversify our customer base over time as we add production capacity and focus on additional opportunities.

Exterior Trim and Fascia Products. We have marketed an exterior trim and fascia system under the trade name MoistureShield® Trim. Several national homebuilders have been specifying and using the product. We believe this product line has significant growth potential as a green alternative to plastic (i.e., PVC) and wood trims to be distributed and sold in conjunction with our MoistureShield® distributors.

Competition

Our products compete with high-grade western pine, cedar and other premium woods, aluminum, high-performance plastics, and an increasing number of composites and other construction materials. We believe that our products have superior characteristics, which make them a better value for the consumer; however, they are more expensive initially than traditional wood products. Additionally, manufacturers of some competing products have long-established ties to the building and construction industry and have well-accepted products. Some of our competitors are larger and have research and development budgets, marketing staffs, and financial and other resources that surpass our resources.

Sales of non-wood decking products to date represent a small portion of the decking market. Pressure treated pine, cedar, redwood and other traditional woods constitute the vast majority of annual decking sales. We thus view wood decking as our principal competitor. The wood decking industry is highly segmented with many small to medium sized manufacturers. Wood decking is principally a commodity that competes as the low-priced product, whereas the more expensive non-wood products must compete on features and performance.

Among manufacturers of alternative decking materials, we view Trex Company, TimberTech Ltd., Tamko Building Products, and Fiber Composites LLC as our primary competitors. The market for door products is highly segmented, with many competitors. We believe that our MoistureShield® industrial products have superior characteristics and are competitively priced. We emphasize durability, which means that manufacturers and homebuilders using our products should see reduced warranty callbacks and higher customer satisfaction. Our product competes not only on durability, but also the ability of the customer to order a product that is custom manufactured to its specifications.

Intellectual Property and Proprietary Technology

Our products are built for hostile external environmental conditions. Our recycling processes focus on intensive cleaning and reformulating of our raw materials prior to extrusion. Our extrusion process is unique and focuses on total encapsulation of the wood fibers. Our composite manufacturing process and our development efforts in connection with waste plastics reclamation technologies involve patents and many trade secrets that we consider to be proprietary. We have also developed certain methods, processes, and equipment designs for which we have sought additional patent protection. Our patents expire between 2015 and 2028.

Our patents cover plastic recycling processes, methods, and apparatus or specially designed equipment as well as the composite product that we manufacture. The composite product patent was issued in 1998 and expires in 2015. This patent covers the unique properties, formulation and processing parameters of our encapsulated wood/polyethylene plastic composite building material. We have also received patents with regard to our mixed recycled plastic resin identification and reformulation technologies.

We have updated and continue to refine our recycling processes, procedures, and technologies, and included these in later issued patents or pending patent applications. We have taken additional measures to protect our intellectual property and trade secrets by restricting access to our facilities and maintaining a policy of nondisclosure, which includes requiring confidentiality and nondisclosure agreements among our associates.

Raw Materials

Wood Fiber. The wood fiber we use is primarily waste byproduct generated by hardwood furniture, cabinet, and flooring manufacturers. However, we see competition for scrap wood fiber for use as a fuel to replace other fuels for both residential and industrial applications.

Recycled Plastics. We use primarily post-consumer waste polyethylene. The largest portion of the plastic materials we use is mixed with paper and other non-plastic materials, which lessens its value to other plastic recyclers. By principally sourcing these contaminated waste plastics prior to processing; we produce a usable but lower-cost feedstock for our composite extrusion lines. We believe our investments in recycling technology and infrastructure will create a significant raw material cost advantage compared to several of our virgin resin-based competitors while offering a more competitive green building product.

Competition for Raw Materials. As the wood/plastic composites industry grows, we sometimes compete for raw materials with other plastic recyclers or plastic resin producers. We believe that our ability to use more contaminated polyethylene limits the number of competitors. Nonetheless, we expect to continue to encounter new entrants into the plastics reclamation business. We increased our capacity for processing waste plastic in recent years, which reduced our dependence on outside suppliers and gave us more control over our costs.

Industry Standards

Building codes exist to provide for safe and effective structures and consistency of structures and construction practices. Our decking and railing products comply with the International Building Code and the International Residential Code as well as the 1997 Uniform Building Code™ (UBC) and the BOCA® National Building Code/1999 (BNBC). The International Code Council – Evaluation Service (ICC-ES) publishes evaluation reports for building products. These reports tell the consumer, commercial or residential, that the products listed in the report comply with code when they are used in the prescribed application and installed according to the manufacturer’s installation instructions. In 2009, we converted from the legacy evaluation report, NER-596, to ESR-2388 from ICC-ES. In Canada, compliance of our products to code is documented in evaluation report CCMC 13191-R from the Canadian Construction Materials Center. We utilize an independent third-party to ensure continuing compliance of our products

to code.

The Company has also received from ICC-ES a Verification of Attributes Report (VAR-1015) that verifies the content of recycled materials in our decking, railing and OEM products.

4

Employees

Due to the seasonality of our business and timing of orders received from our largest customer, the number of permanent employees is adjusted throughout the course of the year. At December 31, 2013 we had 415 compared to 371 employees at December 31, 2012.

Available Information

We post on our website (www.aert.com) our periodic reports filed with the SEC on Forms 10-K, 10-Q, and 8-K and amendments to these reports filed pursuant to Section 13(a) of the Securities Exchange Act as soon as reasonably practicable after we electronically file such material with the SEC.

Item 2. Properties.

We currently manufacture all of our composite products at extrusion facilities in Springdale, Arkansas where we also lease our corporate office space.

We operate a facility in Lowell, Arkansas that is used for plastic recycling, blending, and storage. Additionally, we lease warehouses and land in Lowell for inventory storage.

In December 2007, the Company entered into a 20-year lease for an existing 16 building complex on 60 acres in Adair County, Oklahoma near the town of Watts, for construction of a waste plastic washing, recycling, and reclamation facility. The property was being leased from Razorback Farms. Lease payments commenced on January 1, 2009, and were equal to $0.0075 per one pound of recycled resin produced from the production facility, with a minimum rent of $1,000 per month. The throughput or production rent was due quarterly and was capped throughout the term of the lease not to exceed $450,000 per year.

In March 2013, the Company purchased the 60 acres in Adair County from Razorback Watts. As a result of this transaction, no rent expense was recognized in 2013 for this property.

The Company also leases a warehouse in Westville, Oklahoma for inventory storage.

Item 3. Legal Proceedings.

See Note 12: Commitments and Contingencies

Item 4. Mine Safety Disclosure.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The Company's common stock is currently listed with the OTC Bulletin Board and trades under the symbol of AERT. As of December 31, 2013, there were approximately 1,403 holders of record of our Class A common stock and 5 holders of record of our Class B common stock. The closing price of our common stock was $0.11 on December 31, 2013. We have not previously paid cash dividends on our common stock and there are currently restrictions under various debt obligations and our Series E preferred stock designation that would prevent the payment of such dividends for the foreseeable future. The following table sets forth the range of high and low quarterly sales prices of our Class A common stock for the years ended December 31, 2012 and 2013.

Sales Price Range of Class A Common Stock

Fiscal 2012	High	Low
First Quarter	0.09	0.07
Second Quarter	0.10	0.06
Third Quarter	0.15	0.05
Fourth Quarter	0.12	0.08
Fiscal 2013		
First Quarter	0.24	0.09
Second Quarter	0.22	0.18
Third Quarter	0.19	0.12
Fourth Quarter	0.15	0.10

No repurchases of common stock took place during 2012 or 2013.

Equity Compensation Plan Information

The following table provides information as of December 31, 2013, regarding shares outstanding and available for issuance under the Company's equity compensation plans. No awards were made in 2013 pursuant to the Company's 2012 Stock Incentive Plan, which was approved by security holders at the Company's annual shareholders' meeting on June 27, 2012.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column of this table)
2012 Equity compensation plans approved by security holders	-	N/A	40,000,000
Equity compensation plans not approved by security holders	-	N/A	-
	-		40,000,000

6

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

2013 Summary

Results of Operations
Two Year Comparison (in thousands)

	2013	2012	% Change
Net sales	$68,779	$74,611	(7.8%)
Cost of goods sold	56,976	61,328	(7.1%)
% of net sales	82.8%	82.2%	
Gross margin	11,803	13,283	(11.1%)
% of net sales	17.2%	17.8%	(3.6%)
Gain from asset disposition	9	38	(76.3%)
Selling and administrative costs	11,535	11,070	4.2%
% of net sales	16.8%	14.8%	
Operating income	277	2,251	(87.7%)
% of net sales	0.4%	3.0%	
Other Income:			
Income from insurance proceeds	2,500	-	*
Other income	162	52	*
Other expenses:			
Other expense	(82)	-	*
Net interest expense	(2,920)	(2,972)	(1.7%)
Loss before dividends	(63)	(669)	(90.6%)
% of net sales	(0.1%)	(0.9%)	
Dividends on preferred stock	(1,401)	(1,320)	6.1%
Net loss applicable to common stock	$(1,464)	$(1,989)	(26.4%)
% of net sales	(2.1%)	(2.7%)	

* Not meaningful as a percentage change

Sales

Net sales for the year ended December 31, 2013 were down 7.8% from the year ended December 31, 2012 largely due to lost production as a result of a fire on July 17, 2013 at the extrusion facility in Springdale. The first line at the extrusion plant re-commenced operations on August 16, 2013. The remaining four lines were brought back into operation between August 17 and August 23, 2013. Final adjustments and repairs to the extrusion line are still in progress.

MoistureShield® and export sales increased in the fourth quarter of 2012 due to significant shipments under the Winter Buy program. As a result, MoistureShield® and export sales were 19.3% lower in 2013 than in 2012.

Cost of Goods Sold and Gross Margin

Cost of goods sold decreased 7.1% for the year ended December 31, 2013 compared to 2012. As a percentage of sales, 2013 cost of goods sold was 0.6 percentage points higher than 2012 reflecting increased manufacturing overhead, in

addition to direct labor costs incurred due to the retention of our skilled labor force during the time of lost production. In the third quarter of 2012, a portion of the net settlement recovery from Ross Systems, Inc. was offset against manufacturing costs previously incurred.

Selling and Administrative Costs

Selling and administrative costs were up 4.2% in 2013 compared to 2012. In 2012, a portion of the net settlement recovery from Ross Systems, Inc. was offset against administrative costs previously incurred. Selling and administrative costs also increased due to the hiring of additional employees, additional research and development costs, and the amortization of bank fees.

As a percentage of sales, selling and administrative costs were up 1.9% from 2012. The primary components of selling and administrative costs are compensation and benefits, advertising and promotion, travel, professional fees, and commissions.

Asset Impairment, Disposition and Other Expenses

On July 17, 2013, the Company experienced a fire at its Springdale North extrusion facility and a silo fire on July 25, 2013, at its Lowell facility. These facilities were closed temporarily while the Company, local, state, and federal officials investigated and repairs were made. The Lowell plant re-commenced operations on July 30, while the first line at the extrusion plant re-commenced production on August 16. The remaining four extrusion lines were brought back into operation between August 17 and August 23, 2013. Final adjustments and repairs to the extrusion lines are still in progress.

Estimated costs for personal and real estate damage at the Springdale facility are between $0.5 million and $1.0 million. The Company feels it has adequate insurance to cover any and all repairs needed as a result of the fire.

Damage sustained at the Lowell facility was predominately one silo, its contents, and related infrastructure. Damage is estimated at $0.5 million.

Other Income and Expense

The Company included the $2.5 million insurance advance received in partial settlement of the Springdale fire in October 2013, as other income on the Statement of Operations. AERT has not yet filed a claim for the damage to property sustained in the Springdale fire. AERT submitted a preliminary claim for business interruption. The Company expects to file a claim for the business interruption portion in the first quarter of 2014. A claim for the real and personal property will be filed later in 2014. Although our insurance underwriters have yet to finalize their determination as to the nature of the loss, because a claim was not filed for property damage as of December 31, 2013, the Company determined that the full amount of the proceeds received in October 2013 related to business interruption. It is our belief that the majority of the settlement will be as a result of business interruption.

Net Income (Loss)

AERT generated operating income of $0.3 million for 2013. After consideration of the insurance advance as a result of the fire, and the deduction for interest and dividends, the Company had a net loss of $1.4 million, an improvement of $0.5 million in net income over 2012.

Liquidity and Capital Resources

Liquidity refers to the liquid financial assets available to fund our business operations and pay for near-term obligations as well as unused borrowing capacity under our revolving credit facility. Our cash requirements have historically been satisfied through a combination of cash flows from operations and debt financings.

The Company continues to improve on liquidity by increasing plant efficiencies, decreasing our overhead costs, negotiating longer payment terms with vendors, and increasing profitability within our product sector.

Cash Flows

Cash Flows from Operations

Cash provided by operations for 2013 was $2.3 million, an increase of $0.7 million over 2012. A comparison between the years ending December 31, 2012 and December 2013 shows a change in current assets and current liabilities of $1.7 million. This change is primarily due to:

- lower sales offset by lower cost of goods sold,
- an increase in inventories in 2013 due to increased production in anticipation of 2014 sales,
- and unusual items, including the Ross Systems, Inc. settlement, class action settlement payments, and business interruption insurance recovery.

The changes in our revenue and cost of raw materials significantly impact the Company's liquidity. We are in the remodeling industry that has been depressed as a result of the reduction in home prices in recent years. Our business is dependent upon the economy and we cannot accurately predict cyclical economic changes or the impact on consumer buying.

The Company has significant customer concentration, with one customer representing more than 64% of our revenue. A loss of this customer, or a major reduction in their business, could cause a significant reduction in our liquidity. We are currently working to expand our distribution network, which will reduce this customer's concentration.

Cash Flows from Investing Activities

Cash used in investing activities in 2013 increased slightly from 2012, by $0.3 million. Cash used was primarily due to additional capital expenditures at our Springdale, Arkansas plants to install a new co-extrusion line that the Company anticipates will be in operation during the first quarter of 2014.

Cash Flows from Financing Activities

Cash provided by financing activities was $0.9 million in 2013 compared to $0.8 million in 2012. Cash provided by financing activities was primarily due to increased borrowing on the AloStar line of credit. In 2012, the Company entered into an agreement with AloStar Bank for a new Term Loan and a line of credit. The Term loan from AloStar was used to pay down the outstanding loans with Liberty Bank.

Working Capital

At December 31, 2013, the Company had working capital of $2.6 million compared to working capital of $0.2 million at December 31, 2012. The increase in working capital for 2013 was primarily due to the business interruption insurance recovery that was credited to other income.

Property, Plant and Equipment

The changes in our property, plant, and equipment for 2013 are due primarily to fixed asset additions to our Springdale, Arkansas extrusion facilities.

Arkansas Loan Program

On March 30, 2010, the Company entered into a grant agreement with the City of Springdale and the Arkansas Economic Development Commission (AEDC) in the amount of $170,000. Part of the grant funds were used to pay for

a new packaging line in the Springdale North plant. On June 4, 2010, the Company accepted an offer of additional grant funding in the amount of $150,000 that became a part of the initial grant provided by AEDC, bringing the total amount of that grant to $320,000. In 2011, $70,000 of the grant fund was used to purchase a hammermill for the Springdale South location. The remainder of the grant funding was used when we removed and relocated equipment from AERT's plant at Junction, Texas to the Springdale South Plant. In 2012, the Company fulfilled its obligations to the City of Springdale and the AEDC with regards to this program.

Debt

In addition to the H.I.G. transaction on March 18, 2011, as discussed in Note 5, and the obligations pledged to AloStar Bank of Commerce (AloStar) on November 15, 2012, also discussed in Note 5, the Company continues to explore financing options, including various financial assistance programs sponsored by state and federal governments.

Line of Credit

The balance on our line of credit with AloStar was $5.1 million at December 31, 2013. The amount available for draw down at December 31, 2013 was $1.7 million.

Oklahoma Energy Program Loan

On July 14, 2010, the Company entered into a loan agreement with the Oklahoma Department of Commerce (ODOC) whereby ODOC agreed to a 15-year, $3.0 million loan to AERT at a fixed interest rate of 3.0%. The loan was made pursuant to the American Recovery and Reinvestment Act State Energy Program for the State of Oklahoma award number 14215 SSEP09, and funded the second phase of AERT's recycling facility in Watts, Oklahoma. The balance on the loan at December 31, 2013 was $2.7 million.

Debt Covenants

Our debt covenants per the Company's agreements with AloStar Bank of Commerce and H.I.G. are as follows:

	Year ended December 31, 2013		Compliance
	Actual	Required	
AloStar Bank of Commerce Debt Covenants			
Capital Expenditures	$3.4	<$4.5 million	Yes
Fixed Charge Coverage Ratio	1.86	> 1.10:1.00	Yes
Adjusted Consolidated EBITDA / Consolidated Fixed Charges			
Adjusted EBITDA	$8.3 million	= >$5.5 million	Yes

	Year ended December 31, 2013		Compliance
H.I.G. Debt Covenants	Actual	Required	
Capital Expenditures	$3.4	< $2.5 million	No, Waived
Leverage Ratio	5.0	<= 3.1:1.00	No, Waived
Consolidated Indebtedness / Consolidated EBITDA			
Fixed Charge Coverage Ratio	2.0	> 1.5:1.00	Yes
Adjusted Consolidated EBITDA / Consolidated Fixed Charges			
Consolidated EBITDA	$8.3 million	=>$8.0 million	Yes

On January 15, 2014, H.I.G. AERT LLC, the holder of all of the issued and outstanding shares of Series E Convertible Preferred Stock, waived the Specified Events of Default as a result of AERT failing to have achieved a Leverage Ratio of below 3.1 to 1.0 for the four Fiscal Quarters ending December 31, 2013. H.I.G. AERT, LLC also waived the Specified Events of Default as a result of AERT exceeding the maximum capital expenditure requirement of $2.5

million. In addition, on January 15, 2014, H.I.G. AERT LLC waived its right to deliver a Triggering Event Redemption Notice on the Series E stock solely as a result of the Specified Events of Default.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported on our financial statements. The estimates made in applying the accounting policies described below are material to the financial statements and notes thereto due to the level of judgment involved in arriving at those estimates.

Accounts Receivable

Trade accounts receivable are stated at the amount management expects to collect from outstanding balances. Payments of accounts receivable are allocated to the specific invoices identified on the customer’s remittance advice. Accounts receivable are carried at the original invoice amount less an estimated reserve. Management reviews all overdue accounts receivable balances and estimates the portion, if any, of the balance that may not be collected and provides an allowance. Balances that remain outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a reduction in trade accounts receivable. Recoveries of trade receivables previously written off are recorded when received.

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market. Material, labor, and factory overhead necessary to produce the inventories are included in their cost.

Buildings and Equipment

Property additions and betterments include capitalized interest and acquisition, construction and administrative costs allocable to construction projects and property purchases. The depreciation of buildings and equipment is provided on a straight-line basis over the estimated useful lives of the assets. Gains or losses on sales or other dispositions of property are credited or charged to income in the period incurred. Repairs and maintenance costs are charged to income in the period incurred, unless it is determined that the useful life of the respective asset has been extended.

We assess the impairment of long-lived assets, consisting of property, plant, and equipment, whenever events or circumstances indicate that the carrying value may not be recoverable. Examples of such events or circumstances include:

- an asset group's inability to continue to generate income from operations and positive cash flow in future periods;
- loss of legal ownership or title to an asset;
- significant changes in our strategic business objectives and utilization of the asset(s); and
- the impact of significant negative industry or economic trends.

For the year ending December 31, 2013, the Company has determined that there were no events or circumstances indicating the carrying value may not be recoverable.

For purposes of testing impairment, we group our long-lived assets at the same level for which there are identifiable cash flows independent of other asset groups. Currently, there is only one level of aggregation for our assets.

Recoverability of assets to be held and used in operations is measured by a comparison of the carrying amount of our assets to the undiscounted future net cash flows expected to be generated by the assets. The factors used to evaluate the future net cash flows, while reasonable, require a high degree of judgment and the results could vary if the actual results are materially different than the forecasts. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

Assets to be disposed of are reported at the lower of the carrying amount or fair value less selling costs.

As stated in Note 2, buildings and equipment are stated at cost and depreciated over the estimated useful life of each asset using the straight-line method. Estimated useful lives are: buildings — 15 to 30 years, leasehold improvements — 2 to 6 years, and machinery and equipment — 3 to 10 years. We also periodically review the lives assigned to our assets to ensure that our initial estimates do not exceed any revised estimated periods from which we expect to realize cash flows from the asset.

Revenue Recognition

The Company recognizes revenue when the title and risk of loss have passed to the customer, there is persuasive evidence of an arrangement, delivery has occurred or services have been rendered, the sales price is determinable and collectability is reasonably assured. The Company typically recognizes revenue at the time product is shipped or when segregated and billed under a bill and hold agreement. Sales are recorded net of discounts, rebates, and returns.

Estimates of expected sales discounts are calculated by applying the appropriate sales discount rate to all unpaid invoices that are eligible for the discount. The Company's sales prices are determinable given that the Company's sales discount rates are fixed and given the predictability with which customers take sales discounts.

Uncertainties, Issues and Risks

There are many factors that could adversely affect our business and results of operations. These factors include, but are not limited to, general economic conditions, decline in demand for our products, business or industry changes, critical accounting policies, government rules and regulations, environmental concerns, litigation, new products / product transition, product obsolescence, competition, acts of war, terrorism, public health issues, concentration of customer base, loss of a significant customer, availability of raw material (plastic) at a reasonable price, management's failure to execute effectively, manufacturing inefficiencies, high scrap rates, inability to obtain adequate financing (i.e. working capital), equipment breakdowns, low stock price, and fluctuations in quarterly performance.

Forward-looking Information

An investment in our securities involves a high degree of risk. Prior to making an investment, prospective investors should carefully consider the following factors, among others, and seek professional advice. In addition, this Form 10-K contains certain "forward-looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. Such forward-looking statements, which are often identified by words such as "believes", "anticipates", "expects", "estimates", "should", "may", "will" and similar expressions, represent our expectations o beliefs concerning future events. Numerous assumptions, risks, and uncertainties could cause actual results to differ materially from the results discussed in the forward-looking statements. Prospective purchasers of our securities should carefully consider the information contained herein or in the documents incorporated herein by reference.

The foregoing discussion contains certain estimates, predictions, projections and other forward-looking statements (within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934) that involve various risks and uncertainties. While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect management's current judgment regarding the direction of the business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, or other future performance suggested herein. Some important factors (but not necessarily all factors) that could affect the sales volumes, growth strategies, future profitability and operating results, or that otherwise could cause actual results to differ materially from those expressed in any forward-looking statement include the following: market, political or other forces affecting the pricing and availability of plastics and other raw materials; accidents or other unscheduled shutdowns affecting us, our suppliers' or our customers' plants, machinery, or equipment; competition from products and services offered by other enterprises; our ability to refinance short-term indebtedness; state and federal environmental, economic, safety and other policies and regulations, any changes therein, and any legal or regulatory delays or other factors beyond our control; execution of planned capital projects; weather conditions affecting our operations or the areas in which our products are marketed; adverse rulings, judgments, or settlements in litigation or other legal matters. We undertake no obligation to publicly release the result of any revisions to any such forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Item 8. Financial Statements.

The financial statements portion of this item is submitted in a separate section of this report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer, Timothy D. Morrison, who is our principal executive officer, and our Chief Financial Officer, J. R. Brian Hanna, who is our principal financial and accounting officer, have reviewed and evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of December 31, 2013. Based upon this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that, as of December 31, 2013, the end of the period covered by this report, AERT's disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by AERT in the reports that it files or submits under the Exchange Act and are effective in ensuring that information required to be disclosed by AERT in the reports that it files or submits under the Exchange Act is accumulated and communicated to AERT's management, including AERT's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Management's Report on Internal Control Over Financial Reporting

We, as members of the management of Advanced Environmental Recycling Technologies, Inc. (the Company), are responsible for establishing and maintaining adequate internal control over financial reporting. The 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. Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) 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 (3) 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 and procedures may deteriorate.

Management conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2013 using the criteria issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the 1992 Internal Control-Integrated Framework. Based on that evaluation, management believes that our internal control over financial reporting was effective as of December 31, 2013.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by its registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit it to provide only management's report in this annual report.

Changes in Internal Control over Financial Reporting

During the fourth quarter ended December 31, 2013, there have been no changes in our internal controls over financial reporting that have materially affected, or that are reasonably likely to materially affect, our internal control over

financial reporting.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by Item 10 is incorporated herein by reference to the Company's definitive proxy statement for its 2014 annual meeting of stockholders.

Item 11. Executive Compensation.

The information required by Item 11 is incorporated herein by reference to the Company's definitive proxy statement for its 2014 annual meeting of stockholders.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by Item 12 is incorporated herein by reference to the Company's definitive proxy statement for its 2014 annual meeting of stockholders.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by Item 13 is incorporated herein by reference to the Company's definitive proxy statement for its 2014 annual meeting of stockholders.

Item 14. Principal Accountant Fees and Services.

The information required by Item 14 is incorporated herein by reference to the Company's definitive proxy statement for its 2014 annual meeting of stockholders.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a1) and (a2). The Financial Statements listed in the accompanying Index to Financial Statements are filed as part of this report and such Index is hereby incorporated by reference. All schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted.

(a3) and (c). The exhibits listed in the accompanying Index to Exhibits are filed or incorporated by reference as part of this report and such Index is hereby incorporated by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ADVANCED ENVIRONMENTAL
RECYCLING TECHNOLOGIES, INC.

/s/ timothy d. morrison
Timothy D. Morrison,
Chief Executive Officer and Director
(Principal Executive Officer)

/s/ J. R. BRIAN HANNA
J. R. Brian Hanna,
Chief Financial Officer and Principal Accounting Officer

Date: March 6, 2014

POWER OF ATTORNEY

The undersigned directors and officers of Advanced Environmental Recycling Technologies, Inc. hereby constitute and appoint Timothy D. Morrison our true and lawful attorney-in-fact and agent with full power to execute in our name and behalf in the capacities indicated below any and all amendments to this report on Form 10-K to be filed with the Securities and Exchange Commission and hereby ratify and confirm all that such attorney-in-fact and agent shall lawfully do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ JOE G. BROOKS Joe G. Brooks	Chairman	March 6, 2014
/s/ RANDALL D. GOTTLIEB Randall D. Gottlieb	President	March 6, 2014
/s/BOBBY J. SHETH Bobby J. Sheth	Secretary and Director	March 6, 2014
/s/ JACKSON S. CRAIG Jackson S. Craig	Director	March 6, 2014
/s/ TODD J. OFENLOCH Todd J. Ofenloch	Director	March 6, 2014

/s/ MICHAEL R. PHILLIPS Michael R. Phillips	Director	March 6, 2014
/s/ VERNON J. RICHARDSON Vernon J. Richardson	Director	March 6, 2014

16

ADVANCED ENVIRONMENTAL RECYCLING TECHNOLOGIES, INC.

INDEX TO FINANCIAL STATEMENTS

	Page
Report of Independent Registered Public Accounting Firm	F-2
Balance Sheets	F-3 – F-4
Statements of Operations	F-5
Statements of Stockholders' Deficit	F-6
Statements of Cash Flows	F-7
Notes to Financial Statements	F-8 – F24

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Advanced Environmental Recycling Technologies, Inc.

We have audited the accompanying balance sheets of Advanced Environmental Recycling Technologies, Inc. as of December 31, 2013 and 2012, and the related statements of operations, stockholders' deficit, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Advanced Environmental Recycling Technologies, Inc. as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

/s/ HOGANTAYLOR LLP
Fayetteville, Arkansas
March 6, 2014

ADVANCED ENVIRONMENTAL RECYCLING TECHNOLOGIES, INC.

BALANCE SHEETS
(in thousands)

	Decem 31 201
Assets	
Current assets:	
Cash	$124
Trade accounts receivable, net of allowance of $44 at December 31, 2013 and $46 at December 31, 2012	3,09
Accounts receivable - related party	55
Inventories	13,
Prepaid expenses	522
Total current assets	16,9
Land, buildings and equipment:	
Land	2,22
Buildings and leasehold improvements	16,9
Machinery and equipment	47,4
Construction in progress	3,96
Total land, buildings and equipment	70,6
Less accumulated depreciation	41,8
Net land, buildings and equipment	28,8
Other assets:	
Debt issuance costs, net of accumulated amortization of $634 at December 31, 2013 and $262 at December 31, 2012	853
Other assets	380
Total other assets	1,23
Total assets	$47,0

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

ADVANCED ENVIRONMENTAL RECYCLING TECHNOLOGIES, INC.

BALANCE SHEETS
(in thousands)

Liabilities and Stockholders' Deficit	December 31, 2013	December 31, 2012
Current liabilities:		
Accounts payable – trade	$ 3,993	$ 4,105
Accounts payable – related parties	13	591
Current maturities of long-term debt	1,209	1,195
Accruals related to expected settlement of class action lawsuit	133	1,268
Other accrued liabilities	3,859	4,422
Working capital line of credit	5,135	2,327
Total current liabilities	14,342	13,908
Long-term debt, less current maturities	34,972	33,800
Commitments and Contingencies (See Note 12)		
Series E cumulative convertible preferred stock, $0.01 par value; 30,000 shares authorized, 20,524 shares issued and outstanding at December 31, 2013 and 2012, including accrued unpaid dividends of $3,709 and $2,308 at December 31, 2013 and 2012, respectively	24,233	22,832
Stockholders' deficit:		
Class A common stock, $.01 par value; 525,000,000 shares authorized; 88,165,632 shares issued and outstanding at December 31, 2013 and 2012	882	882
Class B convertible common stock, $.01 par value; 7,500,000 shares authorized; 1,465,530 shares issued and outstanding at December 31, 2013 and 2012	15	15
Additional paid-in capital	53,660	53,660
Accumulated deficit	(81,100)	(79,636)
Total stockholders' deficit	(26,543)	(25,079)
Total liabilities and stockholders' deficit	$ 47,004	$ 45,461

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

ADVANCED ENVIRONMENTAL RECYCLING TECHNOLOGIES, INC.

STATEMENTS OF OPERATIONS
(in thousands, except share and per share data)

	Year Ended	
	December 31, 2013	December 31, 2012
Net sales	$68,779	$ 74,611
Cost of goods sold	56,976	61,328
Gross margin	11,803	13,283
Selling and administrative costs	11,535	11,070
Gain from asset disposition	(9)	(38)
Operating income	277	2,251
Other income and expenses:		
Income from insurance proceeds	2,500	-
Other income	162	52
Other expense	(82)	-
Net interest expense	(2,920)	(2,972)
Net loss	(63)	(669)
Dividends on preferred stock	(1,401)	(1,320)
Net loss applicable to common stock	$(1,464)	$ (1,989)
Loss per share of common stock (basic and diluted)	$(0.02)	$ (0.02)
Weighted average common shares outstanding (basic and diluted)	89,631,162	89,631,162

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

ADVANCED ENVIRONMENTAL RECYCLING TECHNOLOGIES, INC.

STATEMENTS OF STOCKHOLDERS' DEFICIT
(in thousands, except share data)

	Class A Common Stock		Class B Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount			
Balance - December 31, 2011	88,165,632	$882	1,465,530	$15	$53,347	$ (77,647)	$(23,403)
Related party forgiveness of debt	-	-	-	-	313	-	313
Net loss applicable to common stock	-	-	-	-	-	(1,989)	(1,989)
Balance - December 31, 2012	88,165,632	$882	1,465,530	$15	$53,660	$ (79,636)	$(25,079)
Net loss applicable to common stock	-	-	-	-	-	(1,464)	(1,464)
Balance - December 31, 2013	88,165,632	$882	1,465,530	$15	$53,660	$ (81,100)	$(26,543)

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

ADVANCED ENVIRONMENTAL RECYCLING TECHNOLOGIES, INC.

STATEMENT OF CASH FLOWS
(in thousands)

	Year Ended December 31, 2013	December 31, 2012
Cash flows from operating activities:		
Net loss applicable to common stock	$(1,464)	$ (1,989)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	4,649	5,610
Dividends on preferred stock	1,401	1,320
Accrued interest converted to long-term debt	2,362	2,158
Gain from fixed asset impairment and disposition	(9)	(38)
Increase in accounts receivable allowance	(2)	(91)
Decrease in other assets	32	961
Changes in other current assets and current liabilities	(4,698)	(6,416)
Net cash provided by operating activities	2,271	1,515
Cash flows from investing activities:		
Purchases of land, buildings and equipment	(3,376)	(3,069)
Proceeds from disposition of equipment	11	18
Net cash used in investing activities	(3,365)	(3,051)
Cash flows from financing activities:		
Proceeds from the issuance of notes	-	7,972
Payments on notes	(1,903)	(3,125)
Net borrowing (payments) on line of credit	2,807	(3,798)
Releases from restricted cash	-	881
Increase in restricted cash for payment of debt and construction costs	-	(427)
Debt issuance costs	(32)	(704)
Net cash provided by financing activities	872	799
Decrease in cash	(222)	(737)
Cash, beginning of period	346	1,083
Cash, end of period	$124	$ 346

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

F-7

ADVANCED ENVIRONMENTAL RECYCLING TECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1: Description of the Company

Advanced Environmental Recycling Technologies, Inc. (AERT or the Company), founded in 1988, recycles polyethylene plastic and develops, manufactures, and markets composite building materials that are used in place of traditional wood or plastic products for exterior applications in building and remodeling homes and for certain other industrial or commercial building purposes. The Company's products are made primarily from approximately equal amounts of waste wood fiber, which have been cleaned, sized and reprocessed, and recycled polyethylene plastics that have been cleaned, processed, and reformulated utilizing our patented and proprietary technologies. Its products have been extensively tested, and are sold by leading national companies such as BlueLinx Corporation (BlueLinx), Lowe's Companies, Inc. (Lowe's) and Therma-Tru Corporation. The Company's products are primarily used in renovation and remodeling by consumers, homebuilders, and contractors as an exterior environmentally responsible building alternative for decking, railing, and trim products.

The Company's distributor for its ChoiceDek® products is BlueLinx Corporation. All ChoiceDek® products are sold by BlueLinx exclusively to Lowe's.

The Company currently manufactures all of its composite products at extrusion facilities in Springdale, Arkansas. The Company operates a plastic recycling, blending and storage facility in Lowell, Arkansas, where it also leases warehouses and land for inventory storage. The Company also maintains a facility at Watts, Oklahoma where it cleans, reformulates, and recycles polyethylene plastic scrap as a means to reduce the Company's costs of recycled plastics. The Company also leases warehouse space for inventory storage in Westville, Oklahoma.

Note 2: Summary of Significant Accounting Policies

Revenue Recognition

The Company recognizes revenue when the title and risk of loss have passed to the customer, there is persuasive evidence of an arrangement, delivery has occurred or services have been rendered, the sales price is determinable and collectability is reasonably assured. The Company typically recognizes revenue at the time product is shipped or when segregated and billed under a bill and hold agreement. Sales are recorded net of discounts, rebates, and returns, which were $3.5 million and $3.9 million in 2013 and 2012, respectively.

Estimates of expected sales discounts are calculated by applying the appropriate sales discount rate to all unpaid invoices that are eligible for the discount. The Company's sales prices are determinable given that the Company's sales discount rates are fixed and given the predictability with which customers take sales discounts.

Accrued Product Returns

Revenue adjustment estimates are based on the original sales price of the product expected to be returned, transportation to AERT's facility in Springdale, Arkansas, labor and repackaging materials, and costs to dispose of unsalable product. The accrual is reduced by the per pound cost of any unsalable product that can be re-used in the manufacturing process. Replacement deck boards are accounted for as a sale in accordance with our revenue recognition policy.

In December 2011, AERT recognized the probable and estimable loss resulting from the ChoiceDek® inventory refresh. An inventory refresh entails replacing existing deck boards at Lowe's stores with newly designed product that

is expected to enhance future sales. An entry was recorded to recognize an obligation for anticipated product returns and the cost associated with these returns less the recovery of raw materials to be placed back into inventory. The increase to raw materials inventory of $1.0 million was estimated based on valuation of the returned product as “regrind.” “Regrind” is best described as recyclable manufacturing waste. Our manufacturing process enables us to grind returned product and use it as a raw material. In the production of composite building materials, as much as 50% of the product may consist of “regrind”.

The accrued liability for product returns at December 31, 2011 was $4.7 million. The cost assigned to the returned product considered regrind and classified as raw materials inventory was approximately $1.0 million at December 31, 2011, all of which was utilized in the manufacturing process during 2012.

Shipping and Handling

The Company records shipping fees billed to customers in net sales and records the related expenses in cost of goods sold.

Operating Costs

The cost of goods sold line item in the Company's statements of operations includes costs associated with the manufacture of our products, such as labor, depreciation, repairs and maintenance, utilities, leases, and raw materials, including the costs of raw material delivery, warehousing and other distribution related costs. The selling and administrative costs line item in the Company's statements of operations includes costs associated with sales, marketing, and support activities like accounting and information technology. The types of costs incurred in those areas include labor, advertising, travel, commissions, outside professional services, leases, and depreciation.

Statements of Cash Flows

In order to determine net cash provided by (used in) operating activities, net loss has been adjusted by, among other things, changes in current assets and current liabilities, excluding changes in cash, current maturities of long-term debt and current notes payable. Those changes, shown as an (increase) decrease in current assets and an increase (decrease) in current liabilities, are as follows (in thousands):

	Year Ended December 31,	
	2013	2012
Receivables - trade and related party	$599	$(1,787)
Inventories	(3,682)	1,652
Prepaid expenses	763	-
Accounts payable - trade and related parties	(689)	(464)
Accrued liabilities	$(1,689)	$(5,817)
	$(4,698)	$(6,416)
Cash paid for interest	$558	$819
Cash paid for income taxes	-	-

Supplemental Disclosures of Non-cash Investing and Financing Activities (in thousands):

	Year Ended December 31,	
	2013	2012
Notes payable for financing insurance policies	$727	$673
Note payable for equipment	-	45
Forgiven related party loan guarantee fees	-	313
Accrued interest converted to long term debt	2,362	2,158

Buildings and Equipment

Buildings and equipment are stated at cost and depreciated over the estimated useful life of each asset using the straight-line method. Estimated useful lives are: buildings — 15 to 30 years, leasehold improvements — 2 to 6 years, and machinery and equipment — 3 to 10 years. Depreciation expense recognized by the Company for each of the years ended December 31, 2013 and 2012 was $4.3 million and $5.6 million, respectively. Assets under capital leases are reported in buildings and equipment and office equipment and amortized over the shorter of the primary lease term or estimated future lives.

Gains or losses on sales or other dispositions of property are credited or charged to income in the period incurred. Repairs and maintenance costs are charged to income in the period incurred, unless it is determined that the useful life of the respective asset has been extended. Interest costs incurred during periods of construction of facilities are capitalized as part of the project cost. There was no capitalized interest for the years ended December 31, 2013 and 2012.

The Company assesses the recoverability of its investment in long-lived assets to be held and used in operations whenever events or circumstances indicate that their carrying amounts may not be recoverable. Such assessment requires that the future cash flows associated with the long-lived assets be estimated over their remaining useful lives. An impairment loss may be required when the future cash flows are less than the carrying value of such assets.

For the year ending December 31, 2013, the Company has determined that there were no events or circumstances indicating the carrying value may not be recoverable.

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market. Material, labor, and factory overhead necessary to produce the inventories are included in their cost. Inventories consisted of the following at December 31 (in thousands):

	2013	2012
Parts and supplies	$385	$648
Raw materials	4,715	3,935
Work in progress	2,337	2,034
Finished goods	5,713	2,851
	$13,150	$9,468

Other Assets

Debt issuance costs are amortized over the term of the related debt. Debt issuance costs of $0.37 million for 2013 were charged to amortization expense.

As of December 31, the Company had the following amounts related to intangible assets (in thousands):

	2013		2012	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Debt issuance costs	$1,487	$ 634	$1,455	$ 262

The following table represents the total estimated future amortization of intangible assets (in thousands):

	Estimated Amortization
2014	$ 370
2015	329
2016	125
2017	29

Accounts Receivable

Accounts receivable are uncollateralized customer obligations due under normal trade terms generally requiring payment within thirty days from the invoice date. Trade accounts are stated at the amount management expects to collect from outstanding balances. Payments of accounts receivable are allocated to the specific invoices identified on the customer's remittance advice.

Accounts receivable are carried at original invoice amounts less an estimated reserve provided for returns and discounts based on a review of historical rates of returns and expected discounts. The carrying amount of accounts receivable is reduced, if needed, by a valuation allowance that reflects management's best estimate of the amounts that will not be collected. Management individually reviews all overdue accounts receivable balances and, based on an assessment of current creditworthiness, estimates the portion, if any, of the balance that will not be collected. Management provides for probable uncollectible amounts through a charge to earnings and a credit to an allowance account based on its assessment of the current status of the individual accounts. Balances that remain outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to trade accounts receivable. Recoveries of trade receivables previously written off are recorded when received.

The table below presents a roll forward of our allowance for sales returns and bad debts for 2013 and 2012 (in thousands).

	Balance at Beginning of Year	Charged to Costs and Expenses	Charged to Other Accounts	Deductions1	Balance at End of Year
2013	$ 47	396	-	400	$ 43
2012	$ 137	935	302	1,327	$ 47

1Charges to the accounts are for the purposes for which the reserve was created.

Warranty Estimates

The Company offers a limited warranty on its products. Estimates of expected warranty claims are recorded as liabilities and charged to income in the period revenue is recognized. Amounts accrued for warranty claims totaled $0.5 million at December 31, 2013 and $0.6 at December 31, 2012.

Earnings Per Share

The Company utilizes the two-class method for computing and presenting earnings per share. The Company currently has two classes of common stock (the Common Stock) and one class of cumulative participating preferred stock, Series E (the Preferred Stock). Pursuant to the Series E Designation, holders of the Series E Preferred Stock are entitled to receive per share dividends equal to 6% per annum of the stated value of $1,000 per share of Series E Preferred Stock when declared by the Company's Board of Directors. In addition, holders of the Series E Preferred Stock are entitled to participate in any dividends declared on shares of the Company's Common Stock on an as-converted basis. Therefore, the Preferred Stock is considered a participating security requiring the two-class method for the computation and presentation of net income per share – basic.

The two-class computation method for each period segregates basic earnings per common and participating share into two categories: distributed earnings per share (i.e., the Preferred Stock stated dividend) and undistributed earnings per share, which allocates earnings after subtracting the Preferred Stock dividend to the total of weighted average common shares outstanding plus equivalent converted common shares related to the Preferred Stock. Basic earnings

per common and participating share exclude the effect of Common Stock equivalents, and are computed using the two-class computation method.

In computing diluted EPS, only potential common shares that are dilutive—those that reduce earnings per share or increase loss per share—are included. The exercise of options or conversion of convertible securities is not assumed if the result would be antidilutive, such as when a loss from continuing operations is reported. As a result, if there is a loss from continuing operations, diluted EPS would be computed in the same manner as basic EPS is computed, even if an entity has net income after adjusting for discontinued operations, an extraordinary item or the cumulative effect of an accounting change. The Company incurred losses from continuing operations for years ended December 31, 2013 and 2012. Therefore, basic EPS and diluted EPS were computed in the same manner. The following table presents the two-class method for the years ended December 31, 2013 and 2012.

BASIC EARNINGS PER SHARE
(in thousands, except share data)

	Year Ended December 31,	
	2013	2012
Net loss applicable to common stock	$(1,464)	$(1,989)
Preferred stock dividend	1,401	1,320
Loss before dividends	(63)	(669)
Per share information:		
Basic earnings per common and participating share:		
Distributed earnings per share:		
Common	$0.00	$0.00
Preferred	$0.00	$0.00
Earned, unpaid dividends per share		
Preferred	$68.26	$64.32
Undistributed loss per share:		
Common	$(0.02)	$(0.02)
Preferred	-	-
Total basic earnings (loss) per common and participating share:		
Common	$(0.02)	$(0.02)
Preferred	$68.26	$64.32
Basic weighted average common shares:		
Common weighted average number of shares	89,631,162	89,631,162
Participating preferred shares - if converted	312,938,898	294,850,030
Total weighted average number of shares	402,570,060	384,481,192
Total weighted average number of preferred shares	20,524	20,524

Although not included in a diluted EPS calculation due to being antidilutive, the Company had potentially dilutive securities outstanding at December 31, 2013 and 2012. The following schedule presents antidilutive securities for the years ended December 31.

	2013	2012
Options	-	350,000
Series E preferred stock	323,104,177	304,423,633

Although these financial instruments were not included due to being antidilutive, such financial instruments may become dilutive and would then need to be included with future calculations of diluted EPS.

Concentration Risk

Credit Risk

The Company's revenues are derived principally from national and regional building products distributors and BlueLinx, the Company's primary decking customer. The ChoiceDek® brand of decking products sold to BlueLinx are in turn sold exclusively to Lowe's. BlueLinx is also one of the Company's MoistureShield® decking customers. The Company extends unsecured credit to its customers. The Company's concentration in the building materials industry has the potential to impact its exposure to credit risk because changes in economic or other conditions in the construction industry may similarly affect the Company's customers. For the year ended December 31, 2013, the Company derived 64% of its revenue from BlueLinx, its distributor of ChoiceDek® products compared to 62% for the year ended December 31, 2012.

Major Customers

One customer accounted for 78% of accounts receivable at December 31, 2013. At December 31, 2012, one customer accounted for 62% and a second customer accounted for 22% of the accounts receivable. In addition, one international distributor accounted for 10% of our sales in 2013. The Company regularly monitors the creditworthiness of its customers and believes that it has adequately provided for exposure to potential credit losses.

Cash

The Company maintains bank accounts which are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. At times, cash balances may be in excess of the FDIC insurance limit. The Company believes no significant concentrations of risk exist with respect to its cash.

Disclosure about Fair Value of Financial Instruments

The fair value of the Company's long-term debt has been estimated by the Company based upon each obligation's characteristics, including remaining maturities, interest rate, credit rating, and collateral and amortization schedule. The carrying amount approximates fair value.

Share-Based Payments

The Company measures the cost of employee and director service received in exchange for an award of equity instruments based on the grant-date fair value of the award and recognizes that cost in the financial statements. Compensation cost is recognized as the awards vest. Since 2005, the Company has used restricted stock awards as its exclusive form of stock-based compensation. On March 18, 2011, with the change of control, all stock awards were

vested.

Use of Estimates

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

Advertising Costs

Advertising costs are expensed in the period incurred. Advertising expense was $0.9 million for the year ended December 31, 2013 and $1.1 million for the year ended December 31, 2012.

Research and Development Costs

Expenditures for research activities relating to product development and improvement are charged to expense as incurred. Such expenditures amounted to $0.4 million and $0.2 million in 2013 and 2012, respectively.

Recent Accounting Pronouncements

Accounting standards that have been issued or proposed that do not require adoption until a future date are not expected to have a material impact on our financial statements upon adoption.

Note 3: Related Party Transactions

Leases

In December 2007, the Company entered into a 20-year lease for an existing 16-building complex on 60 acres in Adair County, Oklahoma near the town of Watts, for the construction of a waste plastic washing, recycling, and reclamation facility. The property was leased from Razorback Farms, a corporation controlled by Marjorie S. Brooks, a former director, with payments of $0.0075 per pound of plastic recycled, commencing on January 1, 2009, on a pounds of production, or net throughput of recycled plastic produced, basis with a minimum rent of $1,000 per month. The throughput or production rent was due quarterly and was capped throughout the term of the lease not to exceed $450,000 per year. Rent expense recorded under this lease totaled $188,143 in 2012.

In March 2013, the Company purchased the 60 acres in Adair County from Razorback Watts. As a result of this transaction, no rent expense was recognized in 2013 for this property.

Guaranty Agreement

In consideration for Ms. Brooks continuing to perform her obligations under a January 16, 2006 Guaranty Agreement, as amended, in favor of Liberty Bank (the Liberty Guaranty), the Company entered into a Guaranty Fee Agreement with Ms. Brooks, dated March 18, 2011 and February 15, 2012 (the Guaranty Fee Agreement), pursuant to which the Company agreed to pay to Ms. Brooks, for as long as the Liberty Guaranty remained in effect. Concurrent with the execution of the AloStar term loan on November 15, 2012, the Liberty Note was paid in full and the Liberty Guaranty was cancelled.

Advisory Services Agreement

The Company also entered into an Advisory Services Agreement between H.I.G. Capital, L.L.C., an affiliate of H.I.G., and the Company (the Advisory Services Agreement) on March 18, 2011 that provides for an annual monitoring fee between $250,000 and $500,000 (the Monitoring Fee) and reimbursement of all other out of pocket fees and expenses incurred by H.I.G. Capital, L.L.C.. In addition, pursuant to the terms of the Advisory Services Agreement, H.I.G. Capital, L.L.C. will be entitled to a financial advisory fee and a supplemental management fee in connection with any acquisition, disposition or material public or private debt or equity financing of the Company, in each case which has been introduced, arranged, managed and/or negotiated by H.I.G. Capital, L.L.C. or its affiliates. H.I.G. Capital, L.L.C. was paid a $500,000 transaction fee under the Advisory Services Agreement in connection with the recapitalization.

The Company recorded advisory services fees of $0.25 million in 2013 and 2012, respectively, which were related to the Advisory Services Agreement.

Other

The balance of related party accounts included the following amounts:

- Lease and other charges of $0.38 million at December 31, 2012 owed to Razorback Farms.
- Accrued board of directors' fees of $13 thousand at December 31, 2013 and $14 thousand at December 31, 2012.
- There were no accrued advisory services fees as of December 31, 2013. There were $0.21 million of accrued advisory services fees as of December 31, 2012 that were owed to H.I.G.
- Accounts receivable from Joe G. Brooks, Chairman, was $19 thousand at December 31, 2013.
- Accounts receivable from Green Country Recycling, LLC, for whom Joe G. Brooks, Chairman, acts as an advisor was $36 thousand at December 31, 2013.

Note 4: Line of Credit

AERT has a line of credit (Revolver Loan) agreement with AloStar. The $8.0 million Revolver Loan is subject to a reserve of $1.0 million plus a maximum reserve of $1.0 million or the actual reserve for class action claims ($0.1 million at December 31, 2013). Interest is assessed at the greater of (a) 1.0% and (b) the LIBOR rate as shown in the Wall Street Journal on such day for United States dollar deposits for the one month delivery of funds in an amount approximately equal to the principal amount of the Revolver Loan for which such rate is being determined plus 4% at December 31, 2013. If the LIBOR cannot be determined, the interest will be calculated using the prime lending rate plus 2%. The interest rate at December 31, 2013 was 5%. The Revolver Loan is secured by 85% of accounts receivable after a reduction for amounts owed by international customers. The Revolver Loan is also secured by 60% of the eligible inventory or 85% of the net orderly liquidation value of the inventory. The Revolver at AloStar had a $5.1 million balance at December 31, 2013. The proceeds available to draw down on the Revolver loan at December 31, 2013 were $1.7 million.

Note 5: Long-Term Debt

	Year Ended December 31, 2013	December 31, 2012
	(in thousands)	
Long-term debt, less current maturities consisted of the following at December 31:		
3% note payable to the Oklahoma Department of Commerce; secured by assets purchased / constructed with the loan proceeds; matures April 1, 2027	2,722	2,886
H.I.G. Series A Note (a)	12,469	11,519
H.I.G. Series B Note (b)	15,015	13,603
AloStar Bank of Commerce Term Loan bearing interest at 5.5%; secured by a continuing security interest in and lien upon all personal proerty, including all goods, inventory, equipment, all instruments, chattel paper, documents, general intangibles, intellectual property, deposit accounts, and investment property	5,917	6,917
Other	58	70
Total	36,181	34,995
Less Current Maturities	(1,209)	(1,195)
Long-term debt, less current maturities	$34,972	$ 33,800

(a) Cash interest of 4% plus 4% PIK interest added quarterly to principal. Addition occurs after quarter-end. To date all cash interest on H.I.G. Series A Note has been added to principal.
(b) Cash interest of 4% plus 6% PIK interest added quarterly to principal. Addition occurs after quarter-end. To date, all cash interest on H.I.G. Series B Note has been added to principal.

The aggregate maturities of long-term debt as of December 31, 2013 were as follows:

	(in thousands)
Year	Amount
2014	1,209
2015	5,104
2016	188
2017	27,670
2018	191
Thereafter	1,819
	36,181

Oklahoma Energy Program Loan

On July 14, 2010, we entered into a loan agreement with the Oklahoma Department of Commerce (ODOC) whereby ODOC agreed to a 15-year, $3.0 million loan to AERT at a fixed interest rate of 3.0%. The loan was made pursuant to the American Recovery and Reinvestment Act State Energy Program for the State of Oklahoma, and funded the second phase of AERT's new recycling facility in Watts, Oklahoma. Payments on the loan began May 1, 2012. The balance on the loan at December 31, 2013 was $2.7 million.

ODOC, under award number 14215 SSEP09, advanced $3.0 million to AERT throughout 2010, 2011 and 2012. As of December 31, 2012, a total of $3.0 million was spent on contract labor, contract materials, and equipment. In addition, as of December 31, 2012, matching funds of $9.2 million were contributed (in-kind) to the project by AERT.

F-16

AloStar Bank of Commerce Term Loan

The Term Loan requires that AloStar hold first security interest to the majority of AERT's plant, property, and equipment; as well as, real estate. Payments on the principal portion of the loan commenced on December 1, 2012 and will be made in 36 equal monthly installments of $0.08 million plus interest. The final installment $4.1 million shall be due and payable on the commitment termination date. Interest is calculated at 4.5% plus the greater of (a) 1.0% and (b) the LIBOR Rate as shown in the Wall Street Journal on such day for United States dollar deposits for the one month delivery of funds in amounts approximately equal to the principal amount of the Loan for which such rate is being determined or, if such day is not a Business Day on the immediately preceding Business Day. Interest accrued on the principal balance of the Term Loan shall be due and payable on the first day of each month, computed through the last day of the preceding month. Interest, expressed in simple interest terms as of December 31, 2013, is 5.5%.

The Term Loan contains certain covenants, including restrictions on: (1) fundamental changes in ownership, (2) conduct of business, (3) declaration of distributions, (4) amendments or modifications to existing agreements, (5) property acquisitions, (6) affiliated party transactions, and (7) hedging agreements. The proceeds of the loan were used to pay the Liberty Bank obligations.

Recapitalization Agreement - H.I.G. Long Term Debt

In connection with the recapitalization, the Company entered into a Securities Exchange Agreement with H.I.G. (the Exchange Agreement), and a Credit Agreement with H.I.G. (the Credit Agreement), each dated March 18, 2011. Pursuant to the Exchange Agreement and the Credit Agreement, in exchange for the Company's debt:

- $6,806,656 of principal plus accrued interest owed under the Allstate Promissory Note, dated July 1, 2009, issued by the Company;
- $13,281,084 of principal plus accrued interest owed under the Adair County Industrial Authority Solid Waste Recovery Facilities Revenue Bonds issued in 2007;
- $10,436,409 of principal plus accrued interest owed under the City of Springdale Arkansas, Industrial Development Refunding Revenue Bonds issued in 2008;
- $2,096,667 of principal plus accrued interest owed under the Secured Promissory Note (2010 Note) issued on December 20, 2010;
- and H.I.G. making approximately $6.9 million in additional new capital available to the Company,

H.I.G. was issued:

- a Series A Term Note (Series A Note) in the aggregate principal amount of $10,000,000,
- a Series B Senior Term Note (Series B Note, and collectively with the Series A Note, the Notes) in the aggregate principal amount of $9,000,000 (or such lesser amount as is actually borrowed thereunder),
- and 20,524.149 shares of Series E Convertible Preferred Stock, par value $0.01 per share, of the Company (the Series E Preferred Stock).

As a result, upon consummation of the Transactions (including the Series D Exchange Agreement described hereunder), H.I.G. held $17,596,667 outstanding principal of senior secured debt of the Company and owned approximately 80% of the outstanding common equity securities of the Company on a fully diluted, as converted basis. Pursuant to the Exchange Agreement, until such time as H.I.G. no longer owns at least 20% of the Company's outstanding Common Stock on a fully diluted basis, H.I.G. has the right to purchase securities in any subsequent issuance or sale of securities by the Company in an amount equal to the greater of (i) H.I.G.'s ownership percentage as of the business day prior to its receipt of notice of the proposed issuance or sale by the Company or (ii) 51%.

Pursuant to the Credit Agreement, the Company issued to H.I.G. the Notes, which are secured by a grant of a security interest in all of the Company's assets in accordance with the terms of a Security Agreement, Patent Security Agreement, Copyright Security Agreement and Trademark Security Agreement, each dated March 18, 2011. The Series A Note matures six years after the closing of the Transactions (the Closing) and, at the Company's option, either

(i) bears cash interest at 8.0% per annum or (ii) bears cash interest at 4.0% per annum, plus a rate of interest equal to 4.0% per annum payable in kind and added to the outstanding principal amount of the Series A Note (with the latter option only being available for the first 24 months following the Closing, after which the Series A Note will bear cash interest at 8.0% per annum). This option was extended through 2013.

Upon the Closing, H.I.G. converted the $2,000,000 principal amount of the 2010 Note and accrued interest thereon into borrowings under the Series B Note. In addition, an additional $5.5 million was funded and drawn under the Series B Note at Closing. On October 20, 2011 AERT and H.I.G. amended this Credit Agreement to provide the Company with an additional $3.0 million to be drawn, as needed. The Company drew down $1.0 million on May 23, 2011, $2.0 million on October 21, 2011, and $1.0 million on November 18, 2011 to help fund operations. The Company drew down $0.5 million on November 5, 2012, which was repaid on November 15, 2012 with the closing of the AloStar term loan. The Series B Note matures six years after the Closing and, at the Company's option, either (i) bears cash interest at 10.0% per annum or (ii) bears cash interest at 4.0% per annum, plus a rate of interest equal 6.0% per annum payable in kind and added to the outstanding principal amount of the Series B Term Note. The Series B Note ranks pari passu to the Series A Note.

As of December 31, 2013, AERT did not comply with the leverage ratio covenant required by the Series A and B Term Notes. The debt covenant has been waived by H.I.G. per the Waiver of Specified Events of Default as of January 15, 2014.

The Credit Agreement contains provisions requiring mandatory payments upon the Notes equal to 50% of the Company's "Excess Cash Flow" (as defined in the Credit Agreement) and equal to 100% of proceeds from most non-ordinary course asset dispositions, additional debt issuances or equity issuances (subject to certain exceptions in each case or as H.I.G. otherwise agrees), and contains covenant restrictions on the incurrence of additional debt, liens, leases or equity issuances (subject to certain exceptions in each case or as H.I.G. otherwise agrees).

Note 6: Equity

Series E Cumulative Convertible Preferred Stock

Pursuant to the Exchange Agreement, the Company issued 20,524.149 shares of newly authorized Series E Preferred Stock to H.I.G. at the Closing. The Series E Preferred Stock was authorized by the filing of a Certificate of Designations, Preferences and Rights of the Series E Convertible Preferred Stock of the Company filed on March 17, 2011 with the Delaware Secretary of State (the Series E Designation). Pursuant to the Series E Designation, holders of the Series E Preferred Stock are entitled to receive per share dividends equal to 6% per annum of the stated value of $1,000 per share of Series E Preferred Stock when declared by the Company's Board of Directors. In addition, holders of the Series E Preferred Stock are entitled to participate in any dividends declared on shares of the Company's Common Stock on an as-converted basis. Shares of the Series E Preferred Stock and all accrued dividends thereon are convertible at any time at the holder's election into shares of the Company's Class A Common Stock (the Conversion Shares) at a
conversion price of $0.075 per share, subject to customary anti-dilution adjustments. The Series E Preferred Stock ranks senior to all other equity securities of the Company. Holders of the Series E Preferred Stock have the right to vote their ownership interests in the Series E Preferred Stock on an as-converted basis. In addition, holders of the Series E Preferred Stock also have the right to elect four of the Company's seven directors while they hold outstanding shares of Series E Preferred Stock representing at least 20% of the outstanding shares of Common Stock on an as-converted basis. If the outstanding shareholding of Series E Preferred Stock at any time represents less than 20% of the outstanding shares of Common Stock on an as-converted basis, the holders of the Series E Preferred Stock will have the right to elect one of the Company's seven directors. The Series E Designation contains customary protective voting provisions and other rights customarily granted to holders of preferred equity securities.

The Series E Convertible Preferred Stock is not redeemable except under certain conditions which may be out of the control of the Company. An event of default under the Series A and B Term notes, for example, the failure to meet specified financial covenants, may trigger a redemption right to the holders of the Series E Convertible Preferred stockholders. As a result, the carrying value of the Series E Convertible Preferred Stock is reported in temporary equity.

On January 15, 2014, H.I.G. AERT LLC, the holder of all of the issued and outstanding shares of Series E Convertible Preferred Stock, waived the Specified Events of Default as a result of AERT failing to have achieved a Leverage Ratio of below 3.1 to 1.0 for the four Fiscal Quarters ending December 31, 2013. H.I.G. AERT, LLC also waived the Specified Events of Default as a result of AERT exceeding the maximum capital expenditure requirement of $2.5 million. In addition, on January 15, 2014, H.I.G. AERT LLC waived its right to deliver a Triggering Event Redemption Notice on the Series E stock solely as a result of the Specified Events of Default.

The initial conversion price of the Series E Preferred Stock is fixed and will remain the conversion price subject to the anti-dilution adjustments described below. The conversion price of the Series E Preferred Stock is subject to customary weighted-average anti-dilution adjustments, which will be made (subject to certain exceptions) in the event

that AERT:

- issues or sells common stock for consideration per share less than a price equal to the current market price in effect immediately prior to such issue or sale;

- pays dividends or other distributions on the common stock in shares of common stock;
- subdivides, splits or combines the shares of common stock;
- subject to certain exceptions and limitations, issues options, rights or warrants entitling the holders to purchase common stock at less than the then-current market price (as defined in the certificate of designations for the Series E Preferred Stock);
- issues or sells any securities that are convertible into or exercisable or exchangeable for common stock and the lowest price per share for which one share of common stock is issuable upon the conversion, exercise or exchange thereof is less than the then-current market price;
- makes changes to the terms of outstanding options, warrants, or convertible securities (including those that were outstanding as of March 18, 2011, the original issue date of the Series E Preferred Stock) and that would result in a dilutive effect on the Series E Preferred Stock; in general, in such event the adjustment shall be calculated as if the changed terms had been in effect from the initial issuance of such securities and such securities issued before March 18, 2011 shall be treated as if newly issued as of the date of such change; provided that no adjustment will be made in such case if such adjustment would result in an increase in the conversion price then in effect; and
- takes any action that would result in dilution of the Series E Preferred Stock but is not specifically provided for in the Series E Preferred Stock certificate of designations (including granting of stock appreciation rights, phantom stock rights or other rights with equity features), in which case the Company's Board of Directors shall in good faith determine and implement an appropriate adjustment in the conversion price so as to protect the rights of the holders of the Series E Preferred Stock, subject to certain qualifications.

Common Stock

The Class A common stock and the Class B common stock are substantially similar in all respects except that the Class B common stock has five votes per share while the Class A common stock has one vote per share. Each share of Class B common stock is convertible at any time at the holder's option to one share of Class A common stock and, except in certain instances, is automatically converted into one share of Class A common stock upon any sale or transfer.

Note 7: Stock Option Plans

Additional stock options are not issuable under the Company's stock option plans, as the plans and any outstanding options have expired.

	2013			2012	
	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value at December 31, 2013	Shares	Weighted Average Exercise Price
Outstanding, beginning of year	350,000	$ 1.17		525,000	$ 1.62
Granted	-	-		-	-
Exercised	-	-		-	-
Forfeited	(350,000)	1.17		(175,000)	2.53
Outstanding, end of year	-	$ -	$ -	350,000	$ 1.17
Exercisable, end of year	-	$ -	$ -	350,000	$ 1.17

Note 8: Equity Incentive Plans

The Company's 2012 Stock Incentive Plan (Plan) is an equity-based incentive compensation plan that is used to distribute Awards to qualified employees, thereby fulfilling the following objectives of the Company:

1. To enhance the Company's ability to attract highly qualified personnel
2. To strengthen the Company's retention capabilities
3. To enhance the long-term performance and competitiveness of the Company

4. To align the interest of Plan participants with those of the Company’s shareholders.

The Plan was approved by the Board of Directors on March 3, 2012 and by the Shareholders at the 2012 Shareholders’ Meeting held in Springdale, Arkansas on June 27, 2012.

Administration

The 2012 Plan is administered by the Compensation Committee (Committee) of the Board of Directors, and thereafter by such committee as the board may from time to time designate, or by the board itself, if it shall so designate. Except when the entire board is acting as the 2012 Plan Administrator, the Committee administering the 2012 Plan shall consist solely of two or more persons all of whom are both “non-employee directors” within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934.

Plan Basics

A total of 40,000,000 shares are available for issuance under the Plan. The shares deliverable pursuant to Awards shall be authorized but unissued shares, or shares that the Company otherwise holds in treasury or trust. Participants are solely responsible for taxes due on Awards. Awards may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution. In the event of a change of control, shares will be equitably adjusted. Awards will be assumed by the successor company; the Awards Committee may accelerate vesting, arrange for cash payment, terminate all or some Awards, or make other modifications. Pursuant to the Awards Agreement, the Company may terminate, rescind, or recapture any outstanding, unexercised, unexpired, unpaid, or deferred Awards. The Company may require that any Participant reimburse the Company for all or any portion of the Awards granted under this Plan. No Participant shall have any rights as a shareholder of the Company until the date of issuance of a share certificate. The Plan will be valid for a period of 10 years.

The Committee will have the power and authority to select and grant to participants the following types of Awards:

1. Options give the Participant the right to purchase Company stock at a given price over an extended period of time. Incentive Stock Options (ISOs) are within the definition of IRS §422. In the case of an ISO granted to a Participant who is a 10% shareholder on the grant date, the exercise price shall be at least 110% of the fair market value.

2. Share Appreciation Rights (SARs) provide the Participant with a cash (or shares) payment based on the increase in the value of a stated number of shares over a specific period of time. A participant may wish to use an IRS §83(b) election, which will allow the Participant to recognize the value of the SARs as income upon the purchase of the stock.

3. Restricted Shares and Restricted Share Units (RSUs) are shares of stock for which a Participant is eligible after certain restrictions are fulfilled. Restrictions are pursuant to the Awards Agreement. The Participant shall receive unrestricted shares (or cash) in settlement of the Award. Restricted Shares, RSUs and Unrestricted Shares are not inconsistent with the Plan. If the shares are purchased and forfeited for any reason, the purchase price is refunded to the Participant and the shares of stock remain with the Company.

4. Deferred Stock Units (DSUs) are permitted within the Plan guidelines. The Committee may permit select eligible persons who are Directors or members of a select group of management or highly compensated employees (within the meaning of ERISA) to irrevocably elect to forego the receipt of cash or other compensation in lieu thereof to have the Company credit to an internal Plan account the number of DSUs deferred. DSUs are 100% vested at all times.

5.

Performance and cash-settled Awards are based on achievement of performance measures for a performance period in relation to a performance formula. The maximum Award will be 10,000,000 shares or $1.0 million. The Committee may defer the Award.

6. Dividend Equivalent Rights give the Participant the right to receive a payment, in shares or in cash that is equivalent to the value of dividends declared on shares as of all dividend payment dates. The Award is paid on the record date of dividends and is pursuant to the Awards Agreement.

As of December 31, 2013, no awards have been made.

Note 9: Leases

At December 31, 2013, the Company was obligated under various operating leases covering certain buildings and equipment that expire between 2014 and 2016. Rent expense under operating leases for the years ended December 31, 2013 and 2012 was $2.8 million and $3.1 million, respectively. These amounts for rent expense are considerably higher than the future minimum lease payments each year shown in the table below due to many of our operating equipment leases having durations of less than one year.

During 2010, the Company also leased certain ERP software, computer equipment, and production equipment under three individual, non-cancelable capital leases. The leases have various terms but all include a bargain purchase option upon expiration. The computer equipment lease expired in 2010 while the software and production equipment leases expired in 2012.

Future minimum lease payments required under operating leases as of December 31, 2013, are as follows (in thousands):

Year		Operating Leases
2014	$	1,519
2015		806
2016		391
Total minimum payments required	$	2,716

Note 10: Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

The Company had no income tax provision for State and Federal income for the years ended December 31, 2013 and 2012.

The income tax provisions for 2013 and 2012 differ from the amounts computed by applying the US federal statutory rate of 34% to income as a result of the following (in thousands):

	2013		2012	
	Amount	Percent	Amount	Percent
Income tax at the U.S. federal statutory rate	$(21)	34.0	$(227)	34.0
Permanent differences	58	(93.0)	17	(3.0)
Change in valuation allowance	(37)	59.0	210	(31.0)
	$-	0.0	$-	0.0

The tax effects of significant temporary differences representing deferred tax assets and liabilities were as follows (in thousands):

	2013		2012	
	Current	Long-Term	Current	Long-Term
Deferred tax assets —				
Net operating loss carryforwards	$-	$ 8,786	$-	$ 8,757
Accrued expenses	811	-	956	-
Valuation allowance	(1,078)	(8,738)	(1,101)	(7,827)
Other	471	48	363	51
Total deferred tax assets	204	96	218	981
Deferred tax liability —				
Depreciation	-	96	-	981
Prepaid expenses	204	-	218	-
Total deferred tax liabilities	204	96	218	981
Net deferred tax	$-	$ -	$-	$ -

As of December 31, 2013, the Company had net operating loss (NOL) carryforwards for federal income tax purposes, which are available to reduce future taxable income. If not utilized, the NOL carryforwards will expire between 2017 and 2031. In March 2011, H.I.G. AERT, LLC acquired a controlling interest in the Company, which resulted in a significant restriction on the utilization of the Company's net operating loss carryforwards. It is estimated that the utilization of future NOL carryforwards will be limited (per IRC 382) to approximately $0.8 million per year for the next 18 years. The impact of this limitation is approximately $27.0 million in NOL's, which will expire before the Company can use them.

As there is insufficient evidence that the Company will be able to generate adequate future taxable income to enable it to realize its net operating loss carryforwards prior to expiration, the Company maintains a valuation allowance to recognize its deferred tax assets only to the extent of its deferred tax liabilities.

Based upon a review of its income tax filing positions, the Company believes that its positions would be sustained upon an audit and does not anticipate any adjustments that would result in a material change to its financial position. Therefore, no reserves for uncertain income tax positions have been recorded. The Company recognizes interest related to income taxes as interest expense and recognizes penalties as operating expense.

The Company is subject to routine audits by various taxing jurisdictions. The recent examination by the Internal Revenue Service of the Company's 2010 federal tax return yielded changes that did not affect the tax that was reported on the return; therefore, the Service has accepted the return. The Company is no longer subject to income tax examinations by taxing authorities for years before 2010, except in the States of California and Texas, for which the 2009 tax year is still subject to examination.

Note 11: Business Interruption

On July 17, 2013, the Company experienced a fire at its Springdale North extrusion facility and a silo fire on July 25, 2013, at its Lowell facility. These facilities were closed temporarily while the Company, local, state, and federal officials investigated and repairs were made. The Lowell plant re-commenced operations on July 30, while the first line at the extrusion plant re-commenced production on August 16. The remaining four extrusion lines were brought back into operation between August 17 and August 23, 2013. Final adjustments and repairs to the extrusion lines are still in progress.

The Company included the $2.5 million insurance advance received in partial settlement of the Springdale fire in October 2013, as other income on the Statement of Operations. AERT has not yet filed a claim for the damage to property sustained in the Springdale fire. AERT submitted a preliminary claim for business interruption. The Company expects to file a claim for the business interruption portion in the first quarter of 2014. A claim for the real and personal property will be filed later in 2014. Although our insurance underwriters have yet to finalize their determination as to the nature of the loss, because a claim was not filed for property damage as of December 31, 2013, the Company determined that the full amount of the proceeds received in October 2013 related to business interruption. It is our belief that the majority of the settlement will be as a result of business interruption.

Note 12: Commitments and Contingencies

Long Term Contracts

The Company had two agreements for the purchase of raw materials. One agreement expires in three years. The other agreement expired in mid-January 2013, at which time that agreement reverted to a month-to-month obligation.

Legal Proceedings

AERT is involved from time to time in litigation arising from the normal course of business that is not disclosed in its filings with the SEC. In management's opinion, this litigation is not expected to materially impact the Company's results of operations or financial condition.

Advanced Environmental Recycling Technologies, Inc. v. Ross Systems, Inc.

The Company and Ross Systems, Inc. settled the cause of action that was brought by the Company against Ross Systems, Inc. The parties agreed to keep the terms of the settlement confidential and the Company continues to use Ross software with maintenance from Ross Systems, Inc. The net settlement recovery in 2012 was offset against manufacturing and administrative costs previously incurred.

Class Action Lawsuits

The U.S. District Court, Western District of Washington (Seattle Division) approved a class action settlement in January 2009 related to a purported class action lawsuit seeking to recover on behalf of purchasers of ChoiceDek® composite decking for damages allegedly caused by mold and mildew stains on their decks. The settlement includes decking material purchased from January 1, 2004 through December 31, 2007, along with decking material purchased after December 31, 2007 that was manufactured before October 1, 2006, the date a mold inhibitor was introduced into the manufacturing process.

In 2008, the Company accrued an estimated $2.9 million for resolving claims. In the third quarter of 2009, the Company increased its estimate of costs to be incurred in resolving claims under the settlement by $5.1 million. The estimate was revised due to events that occurred and information that became available after the second quarter of

2009 concerning primarily the number of claims received. The deadline for submitting new claims has now passed. The claim resolution process has an annual net cost limitation to the Company of $2.0 million until the claim resolution process is completed.

At December 31, 2013, the Company had a total remaining balance in accrued expenses of $0.1 million associated with the settlement of the class action lawsuit. The decrease in the accrual is due to claims settlements during 2013.

Note 13: 401(k) Plan

The Company sponsors the A.E.R.T. 401(k) Plan (the Plan) for the benefit of all eligible employees. The Plan qualifies under Section 401(k) of the Internal Revenue Code thereby allowing eligible employees to make tax-deferred contributions to the Plan. The Plan provides that the Company may elect to make discretionary-matching contributions equal to a percentage of each participant's voluntary contribution. The Company may also elect to make a profit sharing contribution to the Plan. The Company approved a discretionary match of $19 thousand during the year ended December 31, 2013.

INDEX TO EXHIBITS

Exhibit No.	Description of Exhibit
3.1	Certificate of Incorporation, including Certificate of Amendment filed on June 12, 1989 (a), and Certificate of Amendment filed on August 22, 1989 (b), and Certificate of Amendment filed on December 29, 1999, Certificate of Amendment filed September 23, 2010, Certificate of Amendment filed July 14, 2011, and Certificate of Correction of the Certificate of Amendment filed on April 27, 2012
3.2	Certificate of Designation of Class B common stock.(a)
3.3	Bylaws of Registrant (a)
3.4	Form of Class A common stock Certificate (c)
4.2.1	Form of Class B common stock Certificate (a)
10.1	Form of Right of Refusal Agreement among Class B common stockholders (a)
10.2	Loan Agreement between Oklahoma Department of Commerce and Advanced Environmental Recycling Technologies, Inc. dated July 1, 2010 (d)
10.3	Promissory Note between Oklahoma Department of Commerce and Advanced Environmental Recycling Technologies, Inc. dated July 1, 2010 (d)
10.4	Securities Exchange Agreement between Registrant and Investors named therein (H.I.G. AERT, L.L.C.) dated March 18, 2011 (e)
10.5	Series D Preferred Stock Exchange Agreement between Registrant and Stockholders named therein dated March 18, 2011 (e)
10.6	Advisory Services Agreement between Registrant and H.I.G. Capital, L.L.C. dated March 18, 2011 (e)
10.7	Voting Agreement by and among Registrant and the persons named therein, dated March 18, 2011 (e)
10.8	Indemnity Agreement between the Registrant and Michael Phillips dated March 18, 2011 (e)
10.9	Credit Agreement between the Registrant and H.I.G. AERT, L.L.C. as Administrative Agent (e)
10.10	Series A Term Note of Registrant payable to H.I.G. AERT, L.L.C. dated March 18, 2011 (e)
10.11	Series B Term Note of Registrant payable to H.I.G. AERT, L.L.C dated March 18.2011 (e)
10.12	Security Agreement between Registrant and H.I.G. AERT, L.L.C. as Administrative Agent dated March 18, 2011 (e)
10.13	Lease Reinstatement, Settlement and Waiver Agreement between Registrant and Banc of America Leasing & Capital, LLC dated March 17, 2011 (e)
10.14	Registration Rights Agreement between Registrant and H.I.G. AERT, L.L.C. (e)
10.15	Loan Agreement between AloStar Bank of Commerce and AERT dated November 15, 2012 (f)
10.16	Subordination Agreement between AloStar Bank of Commercer and H.I.G. AERT, L.L.C. (g)
10.17	H.I.G Waiver of Default dated January 25, 2013 (g)
10.18	H.I.G. Waiver of Triggering Event dated February 20, 2013 (g)
10.19	Waiver of Default – H.I.G. Credit Agreement dated January 15, 2014**
10.20	Waiver of "Special Events Defaults" per Series A Term Loan Interest dated January 15, 2014**
10.21	Waiver of "Special Events Defaults" per Series E Convertible Preferred Stock Rights dated January 15, 2014**
23.1	Consent of Independent Registered Public Accounting Firm**
31.1	Certification per Sarbanes-Oxley Act of 2002 (Section 302) by the Company's chief executive officer and director**
31.2	Certification per Sarbanes-Oxley Act of 2002 (Section 302) by the Company's chief financial officer and principal accounting officer**

Exhibit No.	Description of Exhibit
101.IN	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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** Filed herewith.

(a) Incorporated by reference to exhibits to Registration Statement on Form S-1, No. 33-29595, filed June 28, 1989.

(b) Incorporated by reference to exhibits to Amendment No. 1 to Registration Statement on Form S-1, No. 33-29595, filed August 24, 1989.

(c) Incorporated by reference to exhibits to Amendment No. 2 to Registration Statement on Form S-1, No. 33-29595, filed November 8, 1989.

(d) Incorporated by reference to exhibits to Form 10-K for December 31, 2011 filed March 30, 2012

(e) Incorporated by reference to exhibits to Form 8-K filed March 18, 2011

(f) Incorporated by reference to exhibits to Form 8-K filed November 16, 2012

(g) Incorporated by reference to exhibits to Form 10-K for December 31, 2012 filed on March 15, 2013

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Income (loss) from continuing operations before income taxes

(0.5) 841.8 55.9

Income tax expenses

1.9 7.3 (5) 9.2

Income (loss) from continuing operations

$(2.5) $834.5 $46.6

Dividends accrued on preferred unit

6.3 (6.3)(6)

Income (loss) from continuing operations attributable to common unit

$(2.5) $828.2 $ $46.6

Per common unit data:(7)

Earnings (loss) from continuing operations per common unit Basic and diluted

$(0.01) $15.65 $0.16

Weighted average number of common units

Basic

300.863 52.923 300.158

Diluted

300.863 52.923 300.166

Notes to Unaudited Pro Forma Consolidated Financial Information for the Twelve Month Period Ended December 31, 2009

(1) To reflect the net change in historical cost of sales and selling, general and administrative expenses and research and development expenses of the predecessor company due to the

application of fresh-start accounting as of January 1, 2009 which resulted in a reduction of $13.9 million of tangible assets and an increase of $28.3 million in intangible assets. The corresponding change in depreciation and amortization would have been a decrease in depreciation expense for tangible assets by $7.4 million for the ten-month period ended October 25, 2009 and an increase in amortization expense for intangible assets by $9.1 million for the same period. The useful lives were determined for each tangible asset, which are depreciated on a straight-line basis and range from two to 35 years with a weighted average useful life of 14 years. Technology and customer relationships are amortized on a straight-line basis over one-half to five years based on expected benefit periods. Patents, trademarks and property use rights are amortized on a straight-line basis over the periods of benefits for four years. The estimated useful life of tangibles and intangibles were determined based on expected benefits and/or economic availability for service periods. The aggregate depreciation and amortization expense was allocated to cost of sales and selling, general and administrative expenses and research and development expenses by ($5.4) million, $0.8 million, and $6.4 million, respectively, in respect of the purpose of property, plant and equipment and intangible assets.

The adjustments referred to above are summarized as follows:

	Amortization	Depreciation (In millions)	Total
Cost of sales	$	$ (5.4)	$ (5.4)
Selling, general and administrative Expenses	1.3	(0.5)	0.8
Research and development expenses	7.9	(1.4)	6.4
	$ 9.1	$ (7.4)	$ 1.8

(2) To eliminate the one-time impact on cost of sales associated with the step up of our inventory of $17.9 million, of which $17.2 million was charged to cost of sales in the historical statement of operations for the two-month period ended December 31, 2009, applying the first in, first out method, or FIFO. This adjustment is considered a material non-recurring charge which is directly attributable to the reorganization proceedings and fresh-start accounting and as such is being eliminated from the historical statement of operations in presenting the unaudited pro forma statement of operations.

(3) To eliminate interest expense of $30.8 million of which $29.6 million was incurred on our indebtedness outstanding prior to our reorganization proceedings which was recognized in the ten-month period ended October 25, 2009 and $1.2 million was incurred on our new term loan which was recognized in the two-month period ended December 31, 2009. The $29.6 million incurred on our indebtedness outstanding prior to our reorganization proceedings was comprised of $21.6 million incurred on notes of $750.0 million and $8.0 million incurred under the senior secured credit facility of $95.0 million which was recognized in the ten-month period ended October 25, 2009. In addition, the pro forma adjustment assumes the 10.500% senior notes in the aggregate principal amount of $250.0 million, issued on April 9, 2010, were outstanding as of January 1, 2009. The resulting additional interest expense from our 10.500% senior notes would have been $27.2 million using the effective interest rate method.

(4) To reflect the elimination of the impact of the reorganization items, net recorded in the predecessor period in accordance with ASC 852 upon emergence from the reorganization proceedings, assumed to have occurred January 1, 2009 for the unaudited pro forma statement of operations. As such no adjustment for reorganization items should be reflected.

(5) We believe that the pro forma adjustments related to the reorganization proceedings and adoption of fresh-start reporting and the issuance of $250 million aggregate principal amount of senior notes and the application of the net proceeds should not have an impact on income tax expense for 2009. Those pro forma adjustments which would have income tax impacts, such as increase or decrease in depreciation and amortization expenses and decrease in interest expenses, net are primarily related to our foreign subsidiaries that have sufficient amounts of

operating loss carry forwards and, accordingly, such pro forma adjustments will have no income tax impact.

(6) To eliminate dividends accrued on preferred units, cancelled in connection with our emergence from reorganization proceedings, in the amount of $6.3 million as of October 25, 2009.

(7) Basic and diluted pro forma income per common unit from continuing operations reflects the impact from the implementation of our plan of reorganization which represents the cancellation of our old common units and issuance of new common units. The following table sets forth the computation of unaudited pro forma basic and diluted income per common unit from continuing operations:

	Weighted Average Common Units	Earnings per Common Unit from Continuing Operations
Historical ten-month period ended October 25, 2009	52,923,483	$ 15.65
Historical two-month period ended December 31, 2009	300,862,764	(0.01)
Pro forma adjustment for the ten-month period ended October 25, 2009 in conjunction with the implementation of the Plan of Reorganization		
Basic	(53,627,880)	
Diluted	(53,620,300)	
Pro forma for the combined twelve-month period ended December 31, 2009		
Basic	300,158,367	$ 0.16
Diluted	300,165,947	$ 0.16

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS

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

Overview

We are a Korea-based designer and manufacturer of analog and mixed-signal semiconductor products for high-volume consumer applications. We believe we have one of the broadest and deepest analog and mixed-signal semiconductor technology platforms in the industry, supported by our 30-year operating history, large portfolio of approximately 2,655 novel registered patents and 900 pending novel patent applications and extensive engineering and manufacturing process expertise. Our business is comprised of three key segments: Display Solutions, Power Solutions and Semiconductor Manufacturing Services. Our Display Solutions products include display drivers that cover a wide range of flat panel displays and multimedia devices. Our Power Solutions products include discrete and integrated circuit solutions for power management in high-volume consumer applications. Our Semiconductor Manufacturing Services segment provides specialty analog and mixed-signal foundry services for fabless semiconductor companies that serve the consumer, computing and wireless end markets.

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

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

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

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

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

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

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

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

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

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

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

In connection with the audits of our consolidated financial statements for the ten-month period ended October 25, 2009 and two-month period ended December 31, 2009, our independent registered public accounting firm has reported two control deficiencies which represent a material weakness in our internal control over financial reporting. The two control deficiencies that our independent registered public accounting firm reported to our board of directors (as we then did not have a separate audit committee) are that we do not have a sufficient number of financial personnel with requisite financial accounting experience and that our internal controls over non-routine transactions are not effective to ensure that accounting considerations are identified and appropriately recorded. We have identified and are taking steps intended to remediate this material weakness. Upon being notified of the material weakness, we retained the services of an international accounting firm to temporarily supplement our internal resources and have recruited a director of financial reporting.

Recent Changes to Our Business

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

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

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

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

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

In implementing fresh-start accounting, we re-measured our asset values and stated all liabilities, other than deferred taxes and severance benefits, at fair value or at the present values of the amounts to be paid using appropriate market interest rates. Our reorganization value was determined based on consideration of numerous factors and various valuation methodologies, including discounted cash flows, believed by management and our financial advisors to be representative of our business and industry. Information regarding the determination of the reorganization value and application of fresh-start accounting is included in note 3 to the consolidated financial statements of MagnaChip Semiconductor LLC for the ten-month period ended October 25, 2009 and the two-month period ended December 31, 2009 included elsewhere in this prospectus. In addition, under fresh-start accounting, accumulated deficit and accumulated other comprehensive income were eliminated.

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

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

On April 9, 2010, we completed the sale of $250 million in aggregate principal amount of 10.500% senior notes due 2018. Of the $238.4 million of net proceeds, $130.7 million was used to make a distribution to our unitholders and $61.6 million was used to repay all outstanding borrowings under our term loan. The remaining proceeds of $46.1 million were retained to fund working capital and for general corporate purposes. As a result of the higher level of indebtedness from our senior note

offering, our interest expense will increase above that which was reported for the six months ended June 30, 2010 to approximately $13.6 million per semiannual period.

Business Segments

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

Display Solutions: Our Display Solutions products include source and gate drivers and timing controllers that cover a wide range of flat panel displays used in LCD televisions and LED televisions and displays, mobile PCs and mobile communications and entertainment devices. Our display solutions support the industry s most advanced display technologies, such as LTPS and AMOLED, as well as high-volume display technologies such as TFT. Our Display Solutions business represented 50.5%, 50.5% and 46.7% of our net sales for the fiscal years ended December 31, 2009 (on a combined basis), 2008 and 2007, respectively and 42.0% and 55.5% of our net sales for the six months ended June 30, 2010 and June 28, 2009, respectively.

Power Solutions: Our Power Solutions segment produces power management semiconductor products including discrete and integrated circuit solutions for power management in high-volume consumer applications. These products include MOSFETs, LED drivers, DC-DC converters, analog switches and linear regulators, such as low-dropout regulators, or LDOs. Our power solutions products are designed for applications such as mobile phones, LCD televisions, and desktop computers, and allow electronics manufacturers to achieve specific design goals of high efficiency and low standby power consumption. Going forward, we expect to continue to expand our power management product portfolio. Our Power Solutions business represented 2.2% and 0.9% of our net sales for the fiscal years ended December 31, 2009 (on a combined basis) and 2008, respectively and 5.6% and 1.1% of our net sales for six months ended June 30, 2010 and June 28, 2009, respectively.

Semiconductor Manufacturing Services: Our Semiconductor Manufacturing Services segment provides specialty analog and mixed-signal foundry services to fabless semiconductor companies that serve the consumer, computing and wireless end markets. We manufacture wafers based on our customers product designs. We do not market these products directly to end customers but rather supply manufactured wafers and products to our customers to market to their end customers. We offer approximately 200 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 46.7%, 47.7% and 45.2% of our net sales for the fiscal years ended December 31, 2009 (on a combined basis), 2008 and 2007, respectively and 52.1% and 42.8% of our net sales for the six months ended June 30, 2010 and June 28, 2009, respectively.

Additional Business Metrics Evaluated by Management

Adjusted EBITDA and Adjusted Net Income

We use the terms Adjusted EBITDA and Adjusted Net Income throughout this prospectus. Adjusted EBITDA, as we define it, is a non-GAAP measure. We define Adjusted EBITDA as net

income (loss) less income (loss) from discontinued operations, net of taxes excluding (i) depreciation and amortization associated with continuing operations, (ii) interest expense, net, (iii) income tax expense, (iv) restructuring and impairment charges, (v) other restructuring charges, (vi) abandoned IPO expenses, (vii) subcontractor claim settlement, (viii) reorganization items, net, (ix) the increase in cost of sales resulting from the fresh-start inventory accounting step-up, (x) equity-based compensation expense, (xi) foreign currency gain (loss), net and (xii) derivative valuation gain (loss), net.

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

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

- Adjusted EBITDA eliminates the impact of a number of items that may be either one time or recurring that we do not consider to be indicative of our core ongoing operating performance;
- we believe that Adjusted EBITDA is an enterprise level performance measure commonly reported and widely used by analysts and investors in our industry;
- we anticipate that our investor and analyst presentations when and if we are public will include Adjusted EBITDA; and
- we believe that Adjusted EBITDA provides investors with a more consistent measurement of period to period performance of our core operations, as well as a comparison of our operating performance to companies in our industry.

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

- for planning purposes, including the preparation of our annual operating budget;
- to evaluate the effectiveness of our enterprise level business strategies;
- in communications with our board of directors concerning our consolidated financial performance; and
- in certain of our compensation plans as a performance measure for determining incentive compensation payments.

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. Our presentation of Adjusted EBITDA and Adjusted Net Income should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. Adjusted EBITDA and Adjusted Net Income are not measures defined in accordance with GAAP and should not be construed as an alternative to operating income, cash flows from operating activities or net income (loss), as determined in accordance with GAAP. For additional information regarding how we calculate Adjusted EBITDA and Adjusted Net Income, please see Prospectus Summary Summary Historical and Unaudited Pro Forma Consolidated Financial Data.

On a pro forma basis, our Adjusted EBITDA and Adjusted Net Income for the six months ended June 30, 2010 were $72.6 million and $40.6 million, respectively. On a pro forma basis, our Adjusted EBITDA and Adjusted Net Income for the combined twelve-month period ended December 31, 2009 were $98.7 million and $33.7 million, respectively. Our Adjusted EBITDA and Adjusted Net Income for the year ended December 31, 2008 were $59.8 million and a loss of $71.7 million, respectively. This improvement resulted from our restructuring efforts and improvements in market conditions.

Factors Affecting Our Results of Operations

Net Sales. We derive a majority of our sales (net of sales returns and allowances) from three reportable segments: Display Solutions, Power Solutions and Semiconductor Manufacturing Services. Our product inventory is primarily located in Korea and is available for drop shipment globally. Outside of Korea, we maintain limited product inventory, and our sales representatives generally relay orders to our factories in Korea for fulfillment. We have strategically located our sales and technical support offices near concentrations of major customers. Our sales offices are located in Hong Kong, Japan, Korea, Taiwan, China, the United Kingdom and the United States. Our network of authorized agents and distributors consists of agents in the United States and Europe and distributors and agents in the Asia Pacific region. Our net sales from All other consist principally of rental income and, for 2007 and to a limited extent in 2008, semiconductor processing services for one customer where we completed a limited number of process steps, rather than the entire production process, which we refer to as unit processing.

We recognize revenue when risk and reward of ownership passes to the customer either upon shipment, upon product delivery at the customer s location or upon customer acceptance, depending on the terms of the arrangement. For the six months ended June 30, 2010 and the combined twelve-month period ended December 31, 2009, we sold products to over 335 and 185 customers, respectively, and our net sales to our ten largest customers represented 64% and 69% of our net sales for the six months ended June 30, 2010 and the combined twelve-month period ended December 31, 2009, respectively. The increase in number of customers is due to the continuing growth of our Power Solutions business. We have a combined production capacity of over 131,000 eight-inch equivalent semiconductor wafers per month. We believe our large-scale, cost-effective fabrication facilities enable us to rapidly adjust our production levels to meet shifts in demand by our end customers.

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

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

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

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, 2009, approximately 98% of our employees were eligible for severance

benefits. We have in the past implemented temporary reductions in salaries to manage through downturns in the industry. We expect to and have reversed such temporary reductions when business conditions improve.

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

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

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

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

Restructuring and Impairment Charges. We evaluate the recoverability of certain long-lived assets on a periodic basis or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. In our efforts to improve our overall profitability in future periods, we have closed or otherwise impaired, and may in the future close or impair, facilities that are underutilized and that are no longer aligned with our long-term business goals. For example, in 2007 we closed our five-inch fabrication facilities in Gumi, Korea and in 2008 we discontinued our Imaging Solutions business segment.

Interest Expense, Net. Our interest expense was incurred under the Predecessor Company s senior secured credit facility, the Predecessor Company s second priority senior secured notes and senior subordinated notes and the Successor Company s new term loan under the Successor

Company. Our new term loan bore interest at six-month LIBOR plus 12%, and was minimally offset by interest income on cash balances. In April 2010, we repaid our new term loan with a portion of the proceeds from our sale of $250 million in aggregate principal amount of 10.500% senior notes due 2018. As a result of our reorganization, we expect that our interest expense will decrease in amount and as a percentage of net sales relative to historical periods. However, as a result of our senior notes offering, our interest expense will increase above that which was reported for the six months ended June 30, 2010 to approximately $13.6 million per semiannual period.

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

For periods ended on or prior to October 25, 2009, we converted our non-U.S. revenues and expenses into U.S. dollars based on cumulative average exchange rates over the periods presented. Beginning on October 25, 2009, we convert our non-U.S. revenues and expenses into U.S. dollars based on monthly average exchange rates. The following table provides the cumulative average exchange rates that we used to convert Korean won into U.S. dollars for each of the periods ended on our prior to October 25, 2009, as well as the monthly average exchange rates used for the two-month period ended December 31, 2009 and for the six months ended June 30, 2010:

Period	**Rate**
Year ended December 31, 2007	929:1
Year ended December 31, 2008	1,099:1
Ten-month period ended October 25, 2009	1,302:1
Two-month period ended December 31, 2009	
November 2009	1,172:1
December 2009	1,165:1
Six months ended June 28, 2009	1,352:1
Six months ended June 30, 2010	
January 2010	1,139:1
February 2010	1,157:1
March 2010	1,138:1
April 2010	1,117:1
May 2010	1,163:1
June 2010	1,212:1

As a result of the depreciation of the Korean won against the U.S. dollar from 2007 to 2008 and from 2008 to 2009, foreign currency fluctuations generally had a materially beneficial impact on our reported profit margins and operating income (loss) from continuing operations for such periods. In

contrast, as a result of the appreciation of the Korean won against the U.S. dollar from the six months ended June 28, 2009 to the six months ended June 30, 2010, foreign currency fluctuations had an unfavorable impact on our reported profit margins and operating income (loss) from continuing operations for the current year period. In order to provide more detailed information regarding the impact of foreign currency fluctuations on our results of operations, in our discussion of period to period comparisons under the heading Results of Operations, we have included information regarding the impact of the year-to-year and semiannual-to-semiannual change in the Korean won/U.S. dollar exchange rate. The information, which is described below as the impact of the depreciation or appreciation of the Korean won against the U.S. dollar, measures the impact in the change in applicable monthly average exchange rate for the most recent period discussed as compared to the applicable cumulative average exchange rate during the prior period. For net sales that were originally denominated in Korean won, we have compared the applicable cumulative average exchange rate in effect for the prior period against the applicable monthly average exchange rate for the period in which the sale took place on a transaction-by-transaction basis. For cost of sales and other expenses, we have compared the applicable cumulative average exchange rate during the prior period to the applicable monthly average exchange rate during the current period and applied that to the amount of our aggregate cost of sales and other expenses for the period that were originally denominated in Korean won. A substantial portion of the net sales recorded at our Korean subsidiary are in U.S. dollars and are converted into Korean won for reporting purposes at the subsidiary level. Although this approach does not reflect the fluctuations of the currency exchange rates for every transaction on a day-to-day basis, we believe that it provides a useful indication of the magnitude of the exchange rate impact for the periods presented.

From time to time, we may engage in exchange rate hedging activities in an effort to mitigate the impact of exchange rate fluctuations. For example, in January 2010 and May 2010 our Korean subsidiary entered into foreign currency option and forward contracts in order to mitigate a portion of the impact of U.S. dollar-Korean won exchange rate fluctuations on our operating results. The January 2010 option and forward contracts require us to sell specified notional amounts in U.S. dollars and provide us the option to sell specified notional amounts in U.S. dollars during each month of 2010 commencing February 2010 to our counterparty, in each case, in exchange for Korean won at specified fixed exchange rates. The May 2010 option and forward contracts require us to sell specified notional amounts in U.S. dollars and provide us the option to sell specified notional amounts in U.S. dollars during the months of January 2011 through June 2011 to our counterparty, in each case, in exchange for Korean won at specified fixed exchange rates. In August 2010, our Korean subsidiary additionally entered into zero cost collar contracts for the same purpose with the above hedge contracts. The August 2010 zero cost collar contracts require us to sell specified notional amounts in U.S. dollars and provide us the option to sell specified notional amounts in U.S. dollars during the months of July 2011 through December 2011 to our counterparty, in each case, in exchange for Korean won at specified fixed exchange rates. Obligations under these foreign currency option and forward contracts must be cash collateralized if our exposure exceeds certain specified thresholds. These option and forward contracts may be terminated by the counterparty in a number of circumstances, including if our long-term debt rating falls below B-/B3 or if our total qualified and unrestricted cash and cash equivalents is less than $30 million at the end of a fiscal quarter. For further information regarding the derivative financial instruments, see notes 7 and 18 to our unaudited interim consolidated financial statements for the six months ended June 30, 2010 elsewhere in this prospectus.

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

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

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

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

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

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

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

Table of Contents

Results of Operations

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

	Successor Company				Predecessor Company							
	Six Months Ended June 30, 2010		Two-Month Period Ended December 31, 2009		Ten-Month Period Ended October 25, 2009		Six Months Ended June 28, 2009		Years Ended December 31, 2008		2007	
	Amount	% of Net Sales	Amount	% of Net Sales	Amount	% of Net Sales	Amount	% of Net Sales	Amount	% of Net Sales	Amount	% of Net Sales
						(In millions)						
Consolidated statements of operations data:												
Net sales	$ 374.2	100.0%	$ 111.1	100.0%	$ 449.0	100.0%	$ 241.2	100.0%	$ 601.7	100.0%	$ 709.5	100.0%
Cost of sales	260.3	69.6	90.4	81.4	311.1	69.3	171.9	71.3	445.3	74.0	578.9	81.6
Gross profit	113.9	30.4	20.7	18.6	137.8	30.7	69.2	28.7	156.4	26.0	130.7	18.4
Selling, general and administrative expenses	33.9	9.1	14.5	13.1	56.3	12.5	33.6	13.9	81.3	13.5	82.7	11.7
Research and development expenses	41.1	11.0	14.7	13.3	56.1	12.5	33.2	13.8	89.5	14.9	90.8	12.8
Restructuring and impairment charges	0.6	0.2			0.4	0.1	0.4	0.2	13.4	2.2	12.1	1.7
Operating income (loss) from continuing operations	38.3	10.2	(8.6)	(7.7)	25.0	5.6	1.9	0.8	(27.7)	(4.6)	(54.9)	(7.7)
Interest expense, net	(8.6)	(2.3)	(1.3)	(1.1)	(31.2)	(6.9)	(27.5)	(11.4)	(76.1)	(12.7)	(60.3)	(8.5)
Foreign currency gain (loss), net	(26.7)	(7.1)	9.3	8.4	43.4	9.7	(9.4)	(3.9)	(210.4)	(35.0)	(4.7)	(0.7)
Reorganization items, net					804.6	179.2	(0.3)	(0.1)				
Others	(1.0)	(0.3)										
	(36.3)	(9.7)	8.1	7.3	816.8	181.9	(37.3)	(15.4)	(286.5)	(47.6)	(65.0)	(9.2)
Income (loss) continuing operations before income taxes	2.1	0.6	(0.5)	(0.5)	841.8	187.5	(35.3)	(14.6)	(314.3)	(52.2)	(120.0)	(16.9)
Income tax expenses	1.7	0.5	1.9	1.8	7.3	1.6	5.0	2.1	11.6	1.9	8.8	1.2
Income (loss) from continuing operations	0.4	0.1	(2.5)	(2.2)	834.5	185.9	(40.3)	(16.7)	(325.8)	(54.2)	(128.8)	(18.2)
Income (loss) from discontinued operations, net of taxes			0.5	0.5	6.6	1.5	(1.8)	(0.7)	(91.5)	(15.2)	(51.7)	(7.3)
Net income (loss)	$ 0.4	0.1%	$ (2.0)	(1.8)%	$ 841.1	187.3%	$ (42.1)	(17.4)%	$ (417.3)	(69.4)%	$ (180.6)	(25.4)%
Net Sales:												
Display Solutions	$ 157.3	42.0%	$ 51.0	46.0%	$ 231.9	51.6%	$ 133.8	55.5%	$ 304.1	50.5%	$ 331.7	46.7%
Power Solutions	21.1	5.6	4.7	4.3	7.6	1.7	2.6	1.1	5.4	0.9		
Semiconductor Manufacturing Services	194.8	52.1	54.8	49.3	206.7	46.0	103.1	42.8	287.1	47.7	321.0	45.2

All other	1.0	0.3	0.5	0.5	2.8	0.6	1.6	0.7	5.0	0.8	56.8	8.0
	$ 374.2	100.0%	$ 111.1	100.0%	$ 449.0	100.0%	$ 241.2	100.0%	$ 601.7	100.0%	$ 709.5	100.0%

68

Table of Contents

Results of Operations Comparison of Six Months Ended June 30, 2010 and June 28, 2009

The following table sets forth consolidated results of operations for the six months ended June 30, 2010 and June 28, 2009:

	Successor Company Six Months Ended June 30, 2010		Predecessor Company Six Months Ended June 28, 2009		
	Amount	% of Net Sales	Amount	% of Net Sales	Change Amount
			(In millions)		
Net sales	$ 374.2	100.0%	$ 241.2	100.0%	$ 133.0
Cost of sales	260.3	69.6	171.9	71.3	88.4
Gross profit	113.9	30.4	69.2	28.7	44.7
Selling, general and administrative expenses	33.9	9.1	33.6	13.9	0.2
Research and development expenses	41.1	11.0	33.2	13.8	7.8
Restructuring and impairment charges	0.6	0.2	0.4	0.2	0.2
Operating income from continuing operations	38.3	10.2	1.9	0.8	36.4
Interest expense, net	(8.6)	(2.3)	(27.5)	(11.4)	18.9
Foreign currency loss, net	(26.7)	(7.1)	(9.4)	(3.9)	(17.2)
Reorganization items, net			(0.3)	(0.1)	0.3
Others	(1.0)	(0.3)			(1.0)
	(36.3)	(9.7)	(37.3)	(15.4)	1.0
Income (loss) from continuing operations before income taxes	2.1	0.6	(35.3)	(14.6)	37.4
Income tax expenses	1.7	0.5	5.0	2.1	(3.3)
Income (loss) from continuing operations	0.4	0.1	(40.3)	(16.7)	40.7
Loss from discontinued operations, net of taxes			(1.8)	(0.7)	1.8
Net income (loss)	$ 0.4	0.1%	$ (42.1)	(17.4)%	$ 42.4

Net Sales

	Successor Company Six Months Ended June 30, 2010		Predecessor Company Six Months Ended June 28, 2009		
	Amount	% of Net Sales	Amount	% of Net Sales	Change Amount
			(In millions)		
Display Solutions	$ 157.3	42.0%	$ 133.8	55.5%	$ 23.5
Power Solutions	21.1	5.6	2.6	1.1	18.5
Semiconductor Manufacturing Services	194.8	52.1	103.1	42.8	91.7
All other	1.0	0.3	1.6	0.7	(0.6)

	$ 374.2	100.0%	$ 241.2	100.0%	$ 133.0

Net sales were $374.2 million for the six months ended June 30, 2010, a $133.0 million, or 55.2%, increase, compared to $241.2 million for the six months ended June 28, 2009. This increase was primarily due to increases in our product sales volume and a $12.7 million favorable impact resulting from the appreciation of the Korean won against the U.S. dollar, which were partially offset by a decrease in average selling prices.

Display Solutions. Net sales from our Display Solutions segment were $157.3 million for the six months ended June 30, 2010, a $23.5 million, or 17.6%, increase from $133.8 million for the six months ended June 28, 2009. The increase was primarily due to a 38.9% increase in sales volume. Sales volume increased as the consumer electronics industry began to recover from the economic slowdown and demand and shipments for consumer electronics products such as digital televisions, PCs and smart phones increased. This increase was partially offset by a 20.3% decrease in average selling prices, which was primarily from display driver products for LCD televisions, PC monitors and mobile devices.

Power Solutions. Net sales from our Power Solutions segment were $21.1 million for the six months ended June 30, 2010, a $18.5 million, or 705.0%, increase from $2.6 million for the six months ended June 28, 2009. The increase was primarily due to a 322.7% increase in sales volume and a 90.4% increase in average selling prices driven by an improved product mix and higher demand for MOSFET products from existing and new customers as we grew this business.

Semiconductor Manufacturing Services. Net sales from our Semiconductor Manufacturing Services segment were $194.8 million for the six months ended June 30, 2010, a $91.7 million, or 88.9%, increase compared to net sales of $103.1 million for the six months ended June 28, 2009. This increase was primarily due to a 88.6% increase in sales volume and 1.1% increase in average selling prices of eight-inch equivalent wafers driven by a strong market demand upside due to the recovery from economic slowdown and an improved product mix of advanced process geometry.

All Other. Net sales from All other were $1.0 million for the six months ended June 30, 2010, $0.6 million or 36.6% decrease compared to $1.6 million for the six months ended June 28, 2009. This decrease resulted from lower rental income due to the relocation of one lessee of our building.

Net Sales by Geographic Region

The following table sets forth our net sales by geographic region and the percentage of total net sales represented by each geographic region for the six months ended June 30, 2010 and June 28, 2009:

	Successor Company Six Months Ended June 30, 2010		Predecessor Company Six Months Ended June 28, 2009		
	Amount	% of Net Sales	Amount	% of Net Sales	Change Amount
			(In millions)		
Korea	$ 199.0	53.2%	$ 134.6	55.8%	$ 64.4
Asia Pacific	101.2	27.0	65.3	27.1	35.9
Japan	23.0	6.1	16.8	7.0	6.2
North America	44.1	11.8	19.7	8.2	24.4
Europe	6.8	1.8	4.8	2.0	2.0
Africa	0.2	0.1			0.2
	$ 374.2	100.0%	$ 241.2	100.0%	$ 133.0

Net sales in Korea for the six months ended June 30, 2010 increased compared to the six months ended June 28, 2009, primarily due to the overall business recovery in the market and increased demand for Display Solutions products and Semiconductor Manufacturing Services. Net sales in Asia Pacific and North America for the six months ended June 30, 2010 increased compared to the six months ended June 28, 2009, primarily due to the overall business recovery in the market and increased demand for Semiconductor Manufacturing Services.

Table of Contents

Gross Profit

	Successor Company Six Months Ended June 30, 2010		Predecessor Company Six Months Ended June 28, 2009		
	Amount	% of Net Sales	Amount (In millions)	% of Net Sales	Change Amount
Display Solutions	$ 36.6	23.2%	$ 36.1	27.0%	$ 0.4
Power Solutions	4.0	19.0	(0.5)	(19.1)	4.5
Semiconductor Manufacturing Services	72.3	37.1	32.0	31.0	40.3
All other	1.0	100.0	1.6	100.0	(0.6)
	$ 113.9	30.4%	$ 69.2	28.7%	$ 44.7

Total gross profit was $113.9 million for the six months ended June 30, 2010 as compared to $69.2 million for the six months ended June 28, 2009, a $44.7 million, or 64.5%, increase. Gross profit as a percentage of net sales for the six months ended June 30, 2010 was 30.4%, an increase of 1.7% from 28.7% for the six months ended June 28, 2009. This increase in gross margin was primarily attributable to increased sales volume, partially offset by lower average selling prices and a $12.2 million unfavorable impact resulting from the appreciation of the Korean won against the U.S. dollar as an unfavorable impact on cost of sales was in excess of a favorable impact on net sales. Gross margin during the six months ended June 30, 2010 was adversely affected by a $0.9 million increase in cost of sales associated with the step up of our inventory resulting from implementation of fresh-start accounting in 2009; higher costs associated with the sale of inventory which was manufactured in late 2009 at higher unit costs; and higher volume of sales of products with lower average sales prices due to a slower than expected transition from one of our legacy products to our latest generation of the product. Cost of sales for the six months ended June 30, 2010 increased by $88.4 million compared to the six months ended June 28, 2009. The increase in cost of sales was primarily due to a $24.9 million unfavorable impact resulting from the appreciation of the Korean won against the U.S. dollar, a $19.6 million increase in material costs, a $20.1 million increase in labor costs resulting from the increased sales volume and the reinstatement of our salary level from our company-wide voluntary salary reductions that were in effect in the first half of 2009 and a $8.8 million increase in subcontractor costs due to the increased sales volume.

Display Solutions. Gross profit for our Display Solutions segment for the six months ended June 30, 2010 decreased to 23.2% compared to 27.0% for the six months ended June 29, 2009 primarily due to a 20.3% decrease in average selling prices. Cost of sales for the six months ended June 3, 2010 increased by $23.1 million compared to the six months ended June 28, 2009, primarily due to a $10.1 million unfavorable impact resulting from the appreciation of the Korean won against the U.S. dollar, a $3.9 million increase in material costs, a $5.3 million increase in labor costs resulting from the increased sales volume and the reinstatement of our salary level from our company-wide voluntary salary reductions that were in effect in the first half of 2009 and a $3.1 million increase in subcontract costs.

Power Solutions. Gross margin for our Power Solutions segment for the six months ended June 30, 2010 improved to 19.0% compared to (19.1)% for the six months ended June 28, 2009. In the six months ended June 30, 2010, gross margin changed to positive due to increased sales volume and improved utilization of our manufacturing facilities. Gross margin was negative in the six months ended June 28, 2009 due to increased overhead costs resulting from lower utilization of our manufacturing facilities. Cost of sales for the six months ended June 30, 2010 increased by $13.9 million compared to the six months ended June 28, 2009, primarily due to a $3.9 million increase in material costs, a

$5.5 million increase in subcontractor costs, a $1.8 million increase in overhead costs and a $1.3 million unfavorable impact resulting from the appreciation of the Korean won against the U.S. dollar.

Semiconductor Manufacturing Services. Gross margin for our Semiconductor Manufacturing Services segment increased to 37.1% in the six months ended June 30, 2010 from 31.0% in the six months ended June 28, 2009. This increase was primarily due to a decrease in unit cost of sales resulting from higher utilization of our manufacturing facilities and improved product mix. Gross profit amount increased by $40.3 million due to the increased sales volume and average selling prices. Cost of sales for the six months ended June 30, 2010 increased by $51.4 million compared to the six months ended June 28, 2009, which was primarily attributable to a $13.5 million unfavorable impact resulting from the appreciation of the Korean won against the U.S. dollar, a $11.8 million increase in material costs and a $13.3 million increase in labor costs from the increased sales volume and the reinstatement of our salary level from our company-wide voluntary salary reductions that were in effect in the first half of 2009 and $13.5 million increase in overhead costs resulting from the increased sales volume.

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

Operating Expenses

Selling, General and Administrative Expenses. Selling, general, and administrative expenses were $33.9 million, or 9.1% of net sales for the six months ended June 30, 2010, compared to $33.6 million, or 13.9% of net sales for the six months ended June 28, 2009. The increase of $0.2 million, or 0.7%, was primarily attributable to a $3.5 million unfavorable impact resulting from the appreciation of the Korean won against the U.S. dollar, a $3.8 million increase in salaries resulting from the reinstatement of our salary levels from our company-wide voluntary salary reductions that were in effect in the first half of 2009, and a $1.5 million increase in amortization expenses due to the write-up of our intangible assets in accordance with fresh-start accounting. These increases were partially offset by a $8.9 million decrease in outside service expenses, primarily due to a decrease in restructuring-related professional fees and related expenses.

Research and Development Expenses. Research and development expenses for the six months ended June 30, 2010 were $41.1 million, an increase of $7.8 million, or 23.6%, from $33.2 million for the six months ended June 28, 2009. This increase was due to a $4.6 million unfavorable impact resulting from the appreciation of the Korean won against the U.S. dollar, a $2.2 million increase in salaries and related expenses resulting from the reinstatement of our salary levels from our company-wide voluntary salary reductions that were in effect in the first half of 2009, a $1.6 million increase in material costs, and a $3.2 million increase in amortization expenses due to the write-up of our intangible assets in accordance with fresh-start accounting. These increases were partially offset by a $4.1 million decrease in costs transferred from manufacturing to research and development expenses due to improved facilities utilization resulting from our higher net sales. Research and development expenses as a percentage of net sales were 11.0% in the six months ended June 30, 2010, compared to 13.8% in the six months ended June 28, 2009.

Restructuring and Impairment Charges. Restructuring and impairment charges increased by $0.2 million in the six months ended June 30, 2010 compared to the six months ended June 28, 2009. Impairment charges of $0.6 million recorded in the six months ended June 30, 2010 were related to impairment of four abandoned in-process research and development projects, accounted for as indefinite-lived intangible assets as part of the application of fresh-start accounting. Restructuring charges of $0.4 million recorded in the six months ended June 28, 2009 were related to the closure of our research and development facilities in Japan.

Other Income (Expense)

Interest Expense, Net. Net interest expense was $8.6 million during the six months ended June 30, 2010, a decrease of $18.9 million compared to $27.5 million for the six months ended June 28, 2009. Interest expense for the six months ended June 30, 2010 was incurred under our $250.0 million principal amount senior notes issued on April 9, 2010 and partially incurred under our new term loan, which was fully repaid on April 9, 2010. Interest expense for the six months ended June 28, 2009 was incurred under our $750.0 million principal amount of notes and $95.0 million senior secured credit facility. Upon our emergence from our reorganization proceedings, our $750.0 million notes were discharged pursuant to the reorganization plan. $33.3 million out of our senior secured credit facility was repaid in cash and $61.8 million was refinanced with the new term loan on November 6, 2009.

Foreign Currency Gain (Loss), Net. Net foreign currency loss for the six months ended June 30, 2010 was $26.7 million, compared to net foreign currency loss of $9.4 million for the six months ended June 28, 2009. A substantial portion of our net foreign currency gain or loss is non-cash translation gain or loss recorded for intercompany borrowings at our Korean subsidiary and is affected by changes in the exchange rate between the Korean won and the U.S. dollar. Foreign currency translation gain from the intercompany borrowings was included in determining our consolidated net income since the intercompany borrowings were not considered long-term investments in nature because management intended to repay these intercompany borrowings at their respective maturity dates. The Korean won to U.S. dollar exchange rates were 1,210.3:1 and 1,283.6:1 using the first base rate as of June 30, 2010 and June 28, 2009, respectively, as quoted by the Korea Exchange Bank.

Others. Others for the six months ended June 30, 2010 was comprised of dividend income from our investment in equity instruments and loss on valuation of derivatives which were designated as hedging instruments. The majority of the loss was loss on valuation of derivatives which represents either hedge ineffectiveness or components of changes in fair value of derivatives excluded from the assessments of hedge effectiveness.

Income Tax Expenses. Income tax expenses for the six months ended June 30, 2010 were $1.7 million, compared to income tax expenses of $5.0 million for the six months ended June 28, 2009. Income tax expenses for the six months ended June 30, 2010 were comprised of $0.5 million of current income tax expenses, net incurred in various jurisdictions in which our overseas subsidiaries are located, $2.2 million of withholding taxes mostly paid on intercompany interest payments, and a $0.7 million income tax effect from the change of deferred tax assets less $1.6 million reversal of liabilities for uncertain tax positions due to the lapse of the applicable statute of limitations. Due to the uncertainty of the utilization of foreign tax credits, we recognized full valuation allowance for the withholding taxes (deferred tax assets).

Loss from Discontinued Operations, Net of Taxes

Loss from Discontinued Operations, Net of Taxes. During 2008, we closed our Imaging Solutions business segment. During the six months ended June 28, 2009, we recognized net loss of $1.8 million relating to our discontinued operations.

Table of Contents

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

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

	Successor Company		Predecessor Company				
	Two-Month Period Ended December 31, 2009		Ten-Month Period Ended October 25, 2009		Year Ended December 31, 2008		
	Amount	% of Net Sales	Amount	% of Net Sales (In millions)	Amount	% of Net Sales	Change Amount
Net sales	$ 111.1	100.0%	$ 449.0	100.0%	$ 601.7	100.0%	$ (41.6)
Cost of sales	90.4	81.4	311.1	69.3	445.3	74.0	(43.7)
Gross profit	20.7	18.6	137.8	30.7	156.4	26.0	2.1
Selling, general and administrative expenses	14.5	13.1	56.3	12.5	81.3	13.5	(10.5)
Research and development expenses	14.7	13.3	56.1	12.5	89.5	14.9	(18.6)
Restructuring and impairment charges			0.4	0.1	13.4	2.2	(12.9)
Operating income (loss) from continuing operations	(8.6)	(7.7)	25.0	5.6	(27.7)	(4.6)	44.1
Interest expense, net	(1.3)	(1.1)	(31.2)	(6.9)	(76.1)	(12.7)	43.7
Foreign currency gain (loss), net	9.3	8.4	43.4	9.7	(210.4)	(35.0)	263.2
Reorganization items, net			804.6	179.2			804.6
	8.1	7.3	816.8	181.9	(286.5)	(47.6)	1,111.5
Income (loss) from continuing operations before income taxes	(0.5)	(0.5)	841.8	187.5	(314.3)	(52.2)	1,155.5
Income tax expenses	1.9	1.8	7.3	1.6	11.6	1.9	(2.3)
Income (loss) from continuing operations	(2.5)	(2.2)	834.5	185.9	(325.8)	(54.2)	1,157.9
Income (loss) from discontinued operations, net of taxes	0.5	0.5	6.6	1.5	(91.5)	(15.2)	98.6
Net income (loss)	$ (2.0)	(1.8)%	$ 841.1	187.3%	$ (417.3)	(69.4)%	$ 1,256.4

Net Sales

	Successor Company	Predecessor Company		
	Two-Month Period Ended	Ten-Month Period Ended	Year Ended December 31, 2008	Change Amount

	December 31, 2009		October 25, 2009				
	Amount	% of Net Sales	Amount	% of Net Sales	Amount	% of Net Sales	
				(In millions)			
Display Solutions	$ 51.0	46.0%	$ 231.9	51.6%	$ 304.1	50.5%	$ (21.2)
Power Solutions	4.7	4.3	7.6	1.7	5.4	0.9	6.9
Semiconductor Manufacturing Services	54.8	49.3	206.7	46.0	287.1	47.7	(25.7)
All other	0.5	0.5	2.8	0.6	5.0	0.8	(1.7)
	$ 111.1	100.0%	$ 449.0	100.0%	$ 601.7	100.0%	$ (41.6)

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

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

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

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

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

Table of Contents

Net Sales by Geographic Region

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

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

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

Gross Profit

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

Total gross profit was $20.7 million for the two-month period ended December 31, 2009 and $137.8 million for the ten-month period ended October 25, 2009, or $158.5 million in aggregate as compared to $156.4 million for 2008, a $2.1 million, or 1.3%, increase. Gross margin, or gross profit as a percentage of net sales, in 2009 was 28.3%, an increase of 2.3% from 26.0% for the year ended December 31, 2008. This increase in gross margin was primarily attributable to a $22.8 million favorable impact resulting from the depreciation of the Korean won against the U.S. dollar and an increase in sales volume. These increases were partially offset by lower average selling prices and the impact of a $17.2

million increase in our cost of sales as a result of the write-up of our inventory in accordance with the principles of fresh-start accounting upon the consummation of our reorganization proceedings. Cost of sales for the combined twelve-month period ended December 31, 2009 decreased by $43.7 million compared to 2008. The decreases in cost of sales were primarily due to a

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

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

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

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

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

Operating Expenses

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

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

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

Other Income (Expense)

Interest Expense, Net. Net interest expense was $32.4 million during the combined twelve-month period ended December 31, 2009, a decrease of $43.7 million compared to $76.1 million for the year ended December 31, 2008. Interest expense was incurred under our $750 million principal amount of notes and our senior secured credit facility. From June 12, 2009, the date of our initial reorganization filing, to October 25, 2009, we did not accrue interest expenses related to our notes, which were categorized as liabilities subject to compromise. Upon our emergence from our reorganization proceedings, our $750.0 million notes were discharged pursuant to the reorganization plan. Net interest expense in 2008 included a write-off of remaining debt issuance costs of $12.3 million related to our notes since we were not compliant with certain financial covenants under the terms of our notes and therefore, amounts outstanding were reclassified as current portion of long-term debt in our balance sheet as of December 31, 2008.

Foreign Currency Gain (Loss), Net. Net foreign currency gain for the combined twelve-month period ended December 31, 2009 was $52.8 million, compared to net foreign exchange loss of $210.4 million for the year ended December 31, 2008. A substantial portion of our net foreign currency gain or loss is non-cash translation gain or loss recorded for intercompany borrowings at our Korean subsidiary and is affected by changes in the exchange rate between the Korean won and the U.S. dollar. Foreign currency translation gain from the intercompany borrowings was included in determining our consolidated net income since the intercompany borrowings were not considered long-term investments in nature because management intended to repay these intercompany borrowings at their

respective maturity dates. The Korean won to U.S. dollar exchange rates were 1,167.6:1 and 1,262.0:1 using the first base rate as of December 31, 2009 as quoted by the Korea Exchange Bank and the noon buying rate in effect as of December 31, 2008 as quoted by the Federal Reserve Bank of New York, respectively. The exchange rate quotation from the Federal Reserve Bank was available on or before December 31, 2008.

Reorganization items, Net. Net reorganization gain of $804.6 million in the ten-month period ended October 25, 2009 represents the impact of non-cash reorganization income and expense items directly associated with our reorganization proceedings and primarily reflects the discharge of liabilities of $798.0 million. Net reorganization gain also includes professional fees, the revaluation of assets and the write-off of debt issuance costs. These items are related primarily to our reorganization proceedings, and are not the result of our current operations. Accordingly, we do not expect these items to continue on an ongoing basis. Further information on reorganization related items is discussed in note 5 to the consolidated financial statements of MagnaChip Semiconductor LLC for the ten-month period ended October 25, 2009 and the two-month period ended December 31, 2009 included elsewhere in this prospectus.

Income Tax Expenses

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

Income from Discontinued Operations, Net of Taxes

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

Table of Contents

Results of Operations Comparison of Years Ended December 31, 2008 and December 31, 2007

The following table sets forth consolidated results of operations for the years ended December 31, 2008 and December 31, 2007:

	Predecessor Company				
	Year Ended December 31, 2008		Year Ended December 31, 2007		
	Amount	% of Net Sales	Amount (In millions)	% of Net Sales	Change Amount
Net sales	$ 601.7	100.0%	$ 709.5	100.0%	$ (107.8)
Cost of sales	445.3	74.0	578.9	81.6	(133.6)
Gross profit	156.4	26.0	130.7	18.4	25.8
Selling, general and administrative expenses	81.3	13.5	82.7	11.7	(1.4)
Research and development expenses	89.5	14.9	90.8	12.8	(1.4)
Restructuring and impairment charges	13.4	2.2	12.1	1.7	1.3
Operating income (loss) from continuing operations	(27.7)	(4.6)	(54.9)	(7.7)	27.2
Interest expense, net	(76.1)	(12.7)	(60.3)	(8.5)	(15.8)
Foreign currency gain (loss), net	(210.4)	(35.0)	(4.7)	(0.7)	(205.7)
	(286.5)	(47.6)	(65.0)	(9.2)	(221.5)
Income (loss) from continuing operations before income taxes	(314.3)	(52.2)	(120.0)	(16.9)	(194.3)
Income tax expenses	11.6	1.9	8.8	1.2	2.8
Income (loss) from continuing operations,	(325.8)	(54.2)	(128.8)	(18.2)	(197.0)
Income (loss) from discontinued operations, net of taxes	(91.5)	(15.2)	(51.7)	(7.3)	(39.7)
Net income (loss)	$ (417.3)	(69.4)%	$ (180.6)	(25.4)%	$ (236.7)

Net Sales

	Predecessor Company				
	Year Ended December 31, 2008		Year Ended December 31, 2007		
	Amount	% of Total	Amount (In millions)	% of Total	Change Amount
Display Solutions	$ 304.1	50.5%	$ 331.7	46.7%	$ (27.6)
Power Solutions	5.4	0.9			5.4
Semiconductor Manufacturing Services	287.1	47.7	321.0	45.2	(33.9)
All other	5.0	0.8	56.8	8.0	(51.8)
	$ 601.7	100.0%	$ 709.5	100.0%	$ (107.8)

Net sales for the year ended December 31, 2008 decreased $107.8 million, or 15.2%, compared to 2007. Net sales generated in our three operating segments during the year ended December 31, 2008 were $596.6 million, a decrease of $56.1 million, or 8.6%, from the net sales for 2007, primarily due to a $27.6 million, or 8.3%, decrease in net sales from our Display Solutions segment and a $33.9 million, or 10.6%, decrease in net sales from our Semiconductor Manufacturing Services segment. Net sales from All other decreased $51.8 million, or 91.2%, compared to the year ended December 31,

2007. Our Korean-based net sales were also lower due to a $21.8 million unfavorable impact resulting from the depreciation of the Korean won against the U.S. dollar.

Display Solutions. Net sales from our Display Solutions segment for the year ended December 31, 2008 were $304.1 million, a $27.6 million, or 8.3%, decrease, from $331.7 million for 2007. The decrease resulted primarily from a 15.6% decline in average selling prices which was due to a higher percentage of our net sales of products with lower sales prices and a 4.6% decline in sales volume.

Power Solutions. Net sales from our Power Solutions segment for the year ended December 31, 2008 were $5.4 million. No sales occurred for the year ended December 31, 2007 as our Power Solutions segment was launched in late 2007 and did not start making sales until 2008.

Semiconductor Manufacturing Services. Net sales from our Semiconductor Manufacturing Services segment for the year ended December 31, 2008 were $287.1 million, a $33.9 million, or 10.6%, decrease compared to net sales of $321.0 million for 2007. This decrease was primarily due to a 5.5% decrease in average selling prices and 3.0% decrease in sales volume. During the fourth quarter of 2008 our net sales were adversely impacted by the worldwide economic slowdown.

All Other. Net sales from All other for 2008 were $5.0 million compared to $56.8 million for 2007. This decrease of $51.8 million, or 91.2%, represents the revenue decrease from our unit processing services as such services were no longer required by our sole customer for the service.

Net Sales by Geographic Region

The following table sets forth our net sales by geographic region and the percentage of total net sales represented by each geographic region for the years ended December 31, 2008 and December 31, 2007:

	Predecessor Company				
	Year Ended December 31, 2008		Year Ended December 31, 2007		
	Amount	% of Total	Amount (In millions)	% of Total	Change Amount
Korea	$ 301.0	50.0%	$ 404.3	57.0%	(103.3)
Asia Pacific	144.5	24.0	155.5	21.9	(11.0)
Japan	79.9	13.3	71.2	10.0	8.7
North America	61.3	10.2	58.5	8.2	2.8
Europe	14.9	2.5	20.0	2.8	(5.1)
Total net revenues	$ 601.7	100.0%	$ 709.5	100.0%	(107.8)

Net sales in Korea in 2008 declined as a percentage of total net sales, principally due to reduced revenue from unit processing services and the overall slowness in the semiconductor manufacturing market. The sales were also affected by lower demand for large display driver products.

Table of Contents

Gross Profit

	Predecessor Company				
	Year Ended December 31, 2008		Year Ended December 31, 2007		
	Amount	% of Net Sales	Amount (In millions)	% of Net Sales	Change Amount
Display Solutions	$ 57.4	18.9%	$ 41.5	12.5%	$ 15.9
Power Solutions	(4.3)	(78.6)			(4.3)
Semiconductor Manufacturing Services	98.4	34.3	67.1	20.9	31.3
All other	4.9	97.3	22.0	38.7	(17.1)
	$ 156.4	26.0%	$ 130.7	18.4%	$ 25.8

Total gross profit increased $25.8 million for the year ended December 31, 2008, or 19.7%, compared to the gross profit generated for the year ended December 31, 2007. Gross margin for the year ended December 31, 2008 was 26.0% of net sales, an increase of 7.6% from 18.4% for the year ended December 31, 2007. This increase in gross margin was attributable to a $30.9 favorable impact due to the depreciation of the Korean won against the U.S. dollar and an overall decrease in unit costs which offset lower average sales prices. Cost of sales in 2008 decreased by $133.6 million compared to 2007, primarily due to a $52.7 million favorable impact resulting from the depreciation of Korean won against U.S. dollar, a $17.4 million decrease in depreciation and a $11.2 million decrease in overhead costs, which were partially offset by a $6.3 million increase in labor costs. In addition, $34.2 million in cost of sales for unit processing services which were incurred during 2007 were not incurred in 2008 as we no longer rendered the services.

Display Solutions. Gross margin for our Display Solutions segment for the year ended December 31, 2008 increased to 18.9% compared to 12.5% for 2007. This increase was primarily due to a $18.3 million favorable impact resulting from the depreciation of the Korean won against the U.S. dollar. Cost of sales for 2008 decreased by $43.5 million compared to 2007, which was primarily attributable to a $24.8 million favorable impact resulting from the depreciation of Korean won against U.S. dollar and a $5.5 million decrease in depreciation and a $9.6 million decrease in subcontractor costs which were offset in part by a $5.7 million increase in labor costs.

Power Solutions. Gross margin for our Power Solutions segment for the year ended December 31, 2008 was (78.6)%. This negative gross margin was due to high fixed production costs per unit resulting from low production volume as we commenced sales in our Power Solutions segment in 2008.

Semiconductor Manufacturing Services. Gross margin for our Semiconductor Manufacturing Services segment increased to 34.3% in the year ended December 31, 2008 from 20.9% for 2007. This increase was due to a decrease in cost of sales, primarily due to a $13.0 million favorable impact resulting from the depreciation of the Korean won against the U.S. dollar. Cost of sales for 2008 decreased by $65.2 million compared to 2007. The decrease was primarily attributable to a $26.9 million favorable impact resulting from the depreciation of Korean won against U.S. dollar, a $12.3 million decrease in depreciation and a $11.6 million decrease in overhead costs, which were partially offset by a $1.3 million increase in material costs.

All Other. Gross margin for All other for the year ended December 31, 2008 increased to 97.3% from 38.7% for 2007. The improvement was primarily attributable to a decrease in sales volume for unit processing while rental revenue, for which there are no allocated cost of sales, remained comparable to the prior year.

Operating Expenses

Selling, General and Administrative Expenses. Selling, general, and administrative expenses were $81.3 million, or 13.5%, of net sales for the year ended December 31, 2008 compared to $82.7 million, or 11.7%, for 2007. The decrease of $1.4 million, or 1.7%, was primarily attributable to a $10.4 million favorable impact resulting from the depreciation of the Korean won against the U.S. dollar and a $3.1 million decrease in depreciation and amortization expenses. These decreases were partially offset by a $9.9 million increase in outside service fees and a $3.6 million increase in salaries.

Research and Development Expenses. Research and development expenses for the year ended December 31, 2008 were $89.5 million, a decrease of $1.4 million, or 1.5%, from $90.8 million for 2007. This decrease was primarily attributable to a $11.3 million favorable impact resulting from the depreciation of the Korean won against the U.S. dollar partially offset by a $7.1 million increase in salaries and a $1.9 million increase in outside service fees.

Restructuring and Impairment Charges. Restructuring and impairment charges for the year ended December 31, 2008 included an impairment charge of $14.2 million related to our Display Solutions segment. During the three months ended July 1, 2007, we recognized $2.0 million of restructuring accruals related to the closure of our five-inch wafer fabrication facilities, including termination benefits and other associated costs. Through the first quarter of 2008, actual payments of $1.1 million were charged against the restructuring accruals. As of March 30, 2008, the restructuring activities were substantially completed and we reversed $0.9 million of unused restructuring accruals.

During the year ended December 31, 2007, we recognized restructuring and impairment charges of $12.1 million, which consisted of $10.1 million of impairment charges and $2.0 million of restructuring charges. The impairment charges recorded related to the closure of our five-inch wafer fabrication facility.

Other Income (Expense)

Interest Expense, Net. Net interest expense was $76.1 million during the year ended December 31, 2008, compared to $60.3 million for 2007. Interest expense was incurred to service our notes and our senior secured credit facility. At December 31, 2008, the notes and our senior secured credit facility bore interest at a weighted average interest rate of 7.14% and 7.90%, respectively. The increase in net interest expense was mainly due to a write-off of remaining debt issuance costs of $12.3 million related to our notes as of December 31, 2008 since we were not in compliance with certain financial covenants under the terms of our notes and therefore, amounts outstanding were reclassified as current in our balance sheet as of December 31, 2008.

Foreign Currency Gain (Loss), Net. Net foreign currency loss for the year ended December 31, 2008 was $210.4 million, compared to net foreign exchange loss of $4.7 million for the year ended December 31, 2007. A substantial portion of our net foreign currency gain or loss is non-cash translation gain or loss recorded for intercompany borrowings at our Korean subsidiary and is affected by changes in the exchange rate between the Korean won and the U.S. dollar. Foreign currency translation gain from the intercompany borrowings was included in determining our consolidated net income since the intercompany borrowings were not considered long-term investments in nature because management intended to repay these intercompany borrowings at their respective maturity dates. The Korean won to U.S. dollar exchange rates were 1,262.0:1 and 935.8:1 using the noon buying rate in effect as of December 31, 2008 and December 31, 2007, respectively, as quoted by the Federal Reserve Bank of New York.

Table of Contents

Income Tax Expenses

Income Tax Expenses. Income tax expenses for the year ended December 31, 2008 were $11.6 million, compared to income tax expenses of $8.8 million for 2007. Income tax expenses for 2008 were comprised of $6.1 million of withholding taxes mostly paid on intercompany interest payments, $4.0 million of current income taxes incurred in various jurisdictions in which we operate and a $1.5 million income tax effect from a change of deferred tax assets. Due to the uncertainty of the utilization of foreign tax credits, we did not recognize these withholding taxes as deferred tax assets.

Loss from Discontinued Operations, Net of Taxes

Loss from Discontinued Operations, Net of Taxes. During 2008, we closed our Imaging Solutions business segment that was classified as a discontinued operation, recognizing net losses of $91.5 million and $51.7 million from discontinued operations for 2008 and for 2007, respectively. Of the recorded net loss of $91.5 million in 2008, $15.9 million was from negative gross margin, $37.5 million was from research and development costs and $34.2 million was attributable to restructuring and impairment charges incurred during the third quarter of 2008.

Periodic Results of Operations

The following tables set forth unaudited selected consolidated financial data for each of the quarters in the six-quarter period ended June 30, 2010. The information for each of these periods has been prepared on the same basis as the audited financial statements included elsewhere in this prospectus and, in the opinion of management, includes adjustments for normal recurring items, necessary for the fair statement of the results of operations for these periods. This data should be read in conjunction with our audited consolidated financial statements and related notes included elsewhere in this prospectus. These operating results are not necessarily indicative of our operating results for any future period.

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

* Derived from our unaudited interim consolidated financial statements.

** Derived from our audited consolidated financial statements.

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

(2) We define Adjusted EBITDA as net income (loss) less income (loss) from discontinued operations, net of taxes, adjusted to exclude (i) depreciation and amortization associated with continuing operations, (ii) interest expense, net, (iii) income tax expenses (benefits), (iv) restructuring and impairment charges, (v) other restructuring charges, (vi) abandoned IPO

Table of Contents

expenses, (vii) subcontractor claim settlement, (viii) the increase in cost of sales resulting from the fresh-start inventory accounting step-up, (ix) equity-based compensation expense, (x) reorganization items, net, (xi) foreign currency gain (loss), net and (xii) derivative valuation gain (loss), net. A reconciliation of net income (loss) to Adjusted EBITDA is as follows:

	Successor(1)			Predecessor(1)			
	Three Months Ended		Two-Month Period Ended	One-Month Period Ended October	Three Months Ended		
	June 30, 2010*	March 31, 2010*	December 31, 2009**	25, 2009*	September 27, 2009*	June 28, 2009*	March 29, 2009*
	(in million)						
Net income (loss)	$ (30.7)	$ 31.1	$ (2.0)	$ 820.7	$ 62.4	$ 27.6	$ (69.7)
Less: Income (loss) from discontinued operations, net of taxes			0.5	(0.6)	8.9	(1.0)	(0.8)
Income (loss) from continuing operations	(30.7)	31.1	(2.5)	821.3	53.5	28.6	(68.9)
Adjustments:							
Depreciation and amortization associated with continuing operations	14.5	15.5	11.2	3.6	11.9	11.7	10.4
Interest expense, net	6.6	2.0	1.3	1.0	2.6	12.8	14.7
Income tax expenses (benefits)	2.7	(1.0)	1.9	(0.1)	2.4	2.4	2.6
Restructuring and impairment charges(a)	0.3	0.3				0.4	0.1
Other restructuring charges(b)				1.1	5.3	3.7	3.1
Reorganization items, net(c)				(809.0)	4.1	0.3	
Inventory step-up(d)		0.9	17.2				
Equity based compensation expense(e)	1.3	1.5	2.2		0.1	0.1	0.1
Foreign currency loss (gain), net(f)	48.3	(21.6)	(9.3)	(7.4)	(45.4)	(30.8)	40.2
Derivative valuation loss, net(g)	1.0	0.1					
Adjusted EBITDA	$ 43.8	$ 28.7	$ 22.1	$ 10.6	$ 34.5	$ 29.3	$ 2.3

(a) This adjustment is comprised of all items included in the restructuring and impairment charges line item on our consolidated statements of operations, and eliminates the impact of restructuring and impairment charges related to (i) for the three months ended June 30 and March 31, 2010, impairment of two abandoned in-process research and development projects in each period, accounted for as indefinite-lived intangible assets as part of the application of fresh-start accounting and (ii) for the three months ended June 28 and March 29, 2009, termination benefits and other related costs in connection with the closure of one of our research and development facilities in Japan.

(b) This adjustment relates to certain restructuring charges that are not included in the restructuring and impairment charges line item on our consolidated statements of operations. These items are included in selling, general and administrative expenses in our consolidated statements of operations. These charges are restructuring-related professional fees and related expenses incurred during each period.

(c) This adjustment eliminates the impact of largely non-cash reorganization income and expense items directly associated with our reorganization proceedings from our ongoing operations including, among others, professional fees, the revaluation of assets, the effects of the Chapter 11 reorganization plan and fresh-start accounting principles and the write-off of debt issuance costs. These items are comprised of the following: (i) for the one-month period ended October 25, 2009, our predecessor s gain recognized upon the effectiveness of the reorganization plan which was primarily composed of debt discharge gains and net of reorganization related professional fees and other charges, and (ii) for three months ended September 27 and June 28, 2009, professional fees incurred in connection with our reorganization proceedings.

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

(e) This adjustment eliminates the impact of non-cash equity-based compensation expenses.

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

(g) This adjustment eliminates the impact of gain or loss recognized in income on derivatives, which represents hedge ineffectiveness or derivatives value changes excluded from the risk being hedged. We enter into derivative transactions to mitigate foreign exchange risks. As our derivative transactions are limited to a certain portion of our expected cash flows denominated in USD, and we do not enter into derivative transactions for trading or speculative purposes, we do not believe that these charges or gains are indicative of our core operating performance.

(3) We define Adjusted Net Income as net income (loss) less income (loss) from discontinued operations, net of taxes, excluding (i) restructuring and impairment charges, (ii) other restructuring charges, (iii) abandoned IPO expenses, (vi) subcontractor claim settlement, (v) reorganization items, net, (vi) the increase in cost of sales resulting from the fresh-start accounting inventory step-up, (vii) equity based compensation expense, (viii) amortization of intangibles associated with continuing operations, (ix) foreign currency gain (loss) and (x) derivative valuation gain (loss), net. The following table summarizes the adjustments to net income (loss) that we make in order to calculate Adjusted Net Income for the periods indicated:

	Successor(1)			Predecessor(1)			
	Three Months Ended		Two-Month Period Ended	One-Month Period Ended October 25,	Three Months Ended		
	June 30, 2010*	March 31, 2010*	December 31, 2009**	2009*	September 27, 2009*	June 28, 2009*	March 29, 2009*
				(in million)			
Net income (loss)	$ (30.7)	$ 31.1	$ (2.0)	$ 820.7	$ 62.4	$ 27.6	$ (69.7)
Less: Income (loss) from discontinued operations, net of taxes			0.5	(0.6)	8.9	(1.0)	(0.8)
Income (loss) from continuing operations	(30.7)	31.1	(2.5)	821.3	53.5	28.6	(68.9)
Adjustments:							
Restructuring and impairment charges(a)	0.3	0.3				0.4	0.1
Other restructuring charges(b)				1.1	5.3	3.7	3.1
Reorganization items, net(c)				(809.0)	4.1	0.3	
Inventory step-up(d)		0.9	17.2				
Equity based compensation expense(e)	1.3	1.5	2.2		0.1	0.1	0.1
Amortization of intangibles associated with continuing operations(f)	5.7	7.7	5.6	0.9	2.8	2.7	2.4
Foreign currency loss (gain), net(g)	48.3	(21.6)	(9.3)	(7.4)	(45.4)	(30.8)	40.2
Derivative valuation loss, net(h)	1.0	0.1					
Adjusted Net Income (Loss)	$ 25.7	$ 19.9	$ 13.3	$ 6.9	$ 20.4	$ 5.0	$ (22.9)

(a) This adjustment is comprised of all items included in the restructuring and impairment charges line item on our consolidated statements of operations, and eliminates the impact of restructuring and impairment charges related to (i) for the three months ended June 30 and March 31,2010, impairment of two abandoned in-process research and development projects in each period, accounted for as indefinite-lived intangible assets as part of the application of fresh-start accounting and (ii) for the three months ended June 28 and March 29, 2009, termination benefits and other related costs in connection with the closure of one of our research and development facilities in Japan.

(b) This adjustment relates to certain restructuring charges that are not included in the restructuring and impairment charges line item on our consolidated statements of operations. These items are included in selling, general and administrative expenses in our consolidated statements of operations. These charges are restructuring-related professional fees and related expenses incurred during each period.

(c) This adjustment eliminates the impact of largely non-cash reorganization income and expense items directly associated with our reorganization proceedings from our ongoing operations including, among others, professional fees, the revaluation of assets, the effects of the Chapter 11 reorganization plan and fresh-start accounting principles and the write-off of debt issuance costs. These items are comprised of the following: (i) for the one-month period ended October 25, 2009, our predecessor s gain recognized upon the effectiveness of the reorganization plan which was primarily composed of debt discharge gains and net of reorganization related professional fees and other charges, and (ii) for three months ended September 27 and June 28, 2009, professional fees incurred in connection with our reorganization proceedings.

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

(e) This adjustment eliminates the impact of non-cash equity-based compensation expenses. Although we expect to incur non-cash equity-based compensation expenses in the future, we believe that analysts and investors will find it helpful to review our operating performance without the effects of these non-cash expenses, as supplemental information.

(f) This adjustment eliminates the non-cash impact of amortization expense for intangible assets created as a result of the 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.

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

(h) This adjustment eliminates the impact of gain or loss recognized in income on derivatives, which represents hedge ineffectiveness or derivatives value changes excluded from the risk being hedged. We enter into derivative transactions to mitigate foreign exchange risks. As our derivative transactions are limited to a certain portion of our expected cash flows denominated in USD, and we do not enter into derivative transactions for trading or speculative purposes, we do not believe that these charges or gains are indicative of our core operating performance.

Net sales have increased quarter over quarter since the first quarter of 2009, primarily as a result of increases in sales volume resulting from increased demand as the consumer electronics industry began to recover from the economic slowdown. Net sales increased 37.7% from the three months ended March 29, 2009 to the three months ended June 28, 2009 partially due to the fact that the first quarter is traditionally a seasonally slow quarter for us due to reduced demand for consumer products after the end of the holiday season. Our net sales for the three months ended March 31, 2010 increased by 10.6% from the combined three-month period ended December 31, 2009 as the overall recovery from the economic slowdown had a greater impact than our typical seasonal weakness. Our net sales for the three months ended June 30, 2010 increased by 8.5% from the three months ended March 31, 2010 due to the improved product mix and increased market demand as the consumer electronics industry continues to recover from the economic slowdown.

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

Selling, general and administrative expenses for the three months ended June 28 and September 27, 2009 increased compared to the three months ended March 29, 2009 primarily due to the increase in outside service fees for restructuring-related professional fees and related expenses. Selling, general and administrative expenses for the combined three-month period ended December 31, 2009 increased compared to the three months ended September 27, 2009 due to an increase in salaries resulting from incentive payments made to our employees following our successful emergence from our reorganization proceedings and an increase in amortization expenses resulting from the write-up of certain intangible assets in accordance with the application of fresh-start accounting. Selling, general and administrative expenses for the three months ended June 30, 2010 decreased compared to the three months ended March 31, 2010 primarily due to decreases in depreciation and amortization as amortization of certain intangible assets was completed in April 2010.

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

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

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

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

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

The majority of others for the three months ended March 31, 2010 were comprised of losses on valuation of derivatives, which represents either hedge ineffectiveness or components of changes in fair value of derivatives excluded from the assessments of hedge effectiveness. Others for the three months ended June 30, 2010 was comprised of loss on valuation of derivatives, which represents either hedge ineffectiveness or components of changes in fair value of derivatives excluded from the assessments of hedge effectiveness.

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

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

Liquidity and Capital Resources

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

Our principal sources of liquidity are our cash and cash equivalents, our cash flows from operations and our financing activities, including $46.1 million of net proceeds from the $250 million aggregate principal amount senior notes offering. The principal purpose of the senior notes offering was to fund a $130.7 million distribution to our unitholders. Most of our current equity holders are former creditors and the distribution allowed us to provide a return to creditors that supported us during our reorganization proceedings. The distribution to our unitholders was approved by our board of directors and was not required due to any contractual or other obligation. In addition to the distribution, we used the proceeds of the senior notes offering to increase our cash reserves and pay down current debt that was accruing interest at a higher rate than the notes. We funded the distribution and other uses of proceeds through the senior notes offering because we believed that the debt market at the time would be receptive to the offering and because we could effect a debt offering faster than other forms of financing, including equity financing. Although we currently anticipate these sources of liquidity will be sufficient to meet our cash needs through the next twelve months, we were cash flow negative for the two-month period ended December 31, 2009 as well as for 2008 and 2007 and we may require or choose to obtain additional financing. Our ability to obtain financing will depend, among other things, on our business plans, operating performance, and the condition of the capital markets at the time we seek financing and could be adversely impacted by our 2009 reorganization proceedings and our non-compliance with bank covenants that preceded the filing. We cannot assure you that additional financing will be available to us on favorable terms when required, or at all. The current rating of our senior notes is B2 by Moody s and B+ by Standard and Poors, both of which are below investment grade. Any lowering of these ratings would adversely impact our ability to raise additional debt financing and increase the cost of any such financing that is obtained. If we raise additional funds through the issuance of equity, equity-linked or debt securities, those securities may have rights, preferences or privileges senior to the rights of our common units, and our unitholders may experience dilution. If we need to raise additional funds in the future and are unable to do so or obtain additional financing on unfavorable terms in the future, it is possible we would have to limit certain planned activities including sales and marketing and research and development activities. As of June 30, 2010, our cash and cash equivalents balance was $141.3 million, a $76.4 million increase, compared to $64.9 million as of December 31, 2009. The increase resulted from $50.9 million of cash inflow provided by operating activities and $45.9 million of cash inflow provided by financing activities, which was offset by $20.2 million cash outflow used in investing activities. As of December 31, 2009, our cash and cash equivalents balance was $64.9 million, a $49.1 million increase from our cash, cash equivalents and restricted cash balance of $15.8 million as of December 31, 2008. The increase in cash and cash equivalents for the combined twelve-month period ended December 31, 2009 was primarily attributable to a cash inflow of $41.5 million from operating activities, coupled with a cash inflow of $11.5 million from investing activities.

Cash Flows from Operating Activities

Cash inflows generated by operating activities totaled $50.9 million for the six months ended June 30, 2010, compared to $25.5 million of cash provided by operating activities in the six months ended June 28, 2009. The increase was primarily attributable to increase in gross profit of $44.7 million resulting from higher net sales. The net operating cash inflow for the six months ended June 30, 2010 reflects our net income of $0.4 million adjusted by non-cash charges of $73.9 million which mainly consisted of depreciation and amortization charges and loss on foreign currency translation, net which was partially offset by an increase in net operating assets of $23.3 million.

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

principally reflected our net income of $839.1 million adjusted by non-cash charges of $799.4 million, which mainly consisted of non-cash reorganization items derived from our reorganization plan.

In 2008, cash flows used in operating activities totaled $18.4 million, compared to $23.7 million in 2007. The decrease was primarily driven by lower operating results adjusted by non-cash charges, which mainly consisted of depreciation and amortization charges and loss on foreign currency translation.

Our working capital balance as of June 30, 2010 was $212.0 million compared to $128.5 million as of December 31, 2009. The $83.6 million increase was primarily attributable to a $76.4 million increase in cash and cash equivalents provided by operating activities and financing activities, a $43.5 million increase in accounts receivable due to increase in net sales, which was partially offset by a $9.7 million increase in accounts payable and a $15.4 million increase in other accounts payable.

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

Our working capital balance as of December 31, 2008 was negative $814.5 million, compared to $55.6 million as of December 31, 2007. The significant decrease in our working capital balance was mainly due to the reclassification of long-term debt to current in 2008. In addition, as a result of our operating performance in the quarter ended December 31, 2008, our cash balances, accounts receivable and inventory were significantly lower as compared to December 31, 2007.

Cash Flows from Investing Activities

Cash flows used in investing activities totaled $20.2 million in the six months ended June 30, 2010, compared to $19.2 million of cash used in investing activities in the six months ended June 28, 2009. The increase was primarily due to a increase in capital expenditure of $18.5 million, which was offset by a decrease in restricted cash of $17.5 million.

Cash flows generated by investing activities totaled $11.5 million in the combined twelve-month period ended December 31, 2009, compared to $39.6 million of cash used in investing activities in the 2008. In 2009, we had a decrease in capital expenditures of $20.5 million from $29.7 million in 2008 to $9.2 million in the combined twelve-month period ended December 31, 2009. In 2008, cash of $11.8 million was restricted pursuant to the terms of a forbearance agreement in relation to short-term borrowings; in 2009, it was released from restriction in connection with our reorganization plan. Cash flow from investing activities in 2009 also included cash proceeds of $9.4 million from the sale of intangible assets.

In 2007, cash flows used in investing activities totaled $81.8 million, primarily due to capital expenditures of $86.6 million related to capacity expansion and technology improvements at a fabrication facility in anticipation of sales growth in future periods. A significant portion of this capital investment was originally targeted for use by our discontinued Imaging Solutions segment and has since been repurposed for the other segments of our business, allowing us to maintain a relatively low level of capital investment in 2008 and 2009.

Cash Flows from Financing Activities

Cash flows provided by financing activities totaled $45.9 million in the six months ended June 30, 2010, compared to nil in the six months ended June 28, 2009. In the six months ended June 30, 2010, we completed $250 million in aggregate principal amount of 10.5% senior notes due 2018, which we

refer to as our senior notes. Of the $238.4 million of net proceeds, which represents $250 million of principal amount net of $3.3 million of original issue discount and $8.3 million of debt issuance costs, $130.7 million was used to make a distribution to our unitholders and $61.8 million was used to repay all outstanding borrowings under our term loan.

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

During the year ended December 31, 2007, we borrowed $130.1 million under our senior secured credit facility which offset repayments under the same facility of $50.1 million during the same period. At December 31, 2007, we had borrowed $80.0 million under our senior secured credit facility and had additional letters of credit of $15.5 million issued under the facility.

Capital Expenditures

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

For the six months ended June 30, 2010, capital expenditures were $20.8 million, a $18.5 million, or 827.8%, increase from $2.2 million in the six months ended June 28, 2009.

For the combined twelve-month period ended December 31, 2009, capital expenditures were $9.2 million, a $20.5 million, or 69.0%, decrease from $29.7 million in 2008.

For the year ended December 31, 2008, capital expenditures were $29.7 million, a $56.9 million, or 65.7%, decrease from $86.6 million in 2007. Significant capital expenditures in 2007 were used to support capacity expansion and technology improvements at our fabrication facilities in anticipation of sales growth in future periods. Since then, these expenditures have been reduced. This year-over-year decrease was a result of managing our capital expenditure timing in order to better support the growth of our business from new customers and to optimize asset utilization and return on capital investments.

Seasonality

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

Table of Contents

Contractual Obligations

The following summarizes our contractual obligations as of June 30, 2010:

	Payments Due by Period						
	Total	Remainder of 2010	2011	2012	2013	2014	Thereafter
	(In millions)						
Senior notes(1)	$ 460.7	$ 13.6	$ 26.3	$ 26.3	$ 26.3	$ 26.3	$ 341.9
Operating lease(2)	46.0	2.7	2.0	1.8	1.8	1.8	35.9
Others(3)	14.0	3.2	6.4	4.2	0.2		

(1) $250 million aggregate principal amount as well as interest payments of senior notes issued in April 2010, which bear interest at a rate of 10.5% per annum and mature in 2018.

(2) Assumes constant currency exchange rate for Korean won to U.S. dollars of 1,210.3:1.

(3) Includes license agreements and other contractual obligations.

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

We follow ASC guidance on uncertain tax positions. Our unrecognized tax benefits totaled $0.9 million as of June 30, 2010. These unrecognized tax benefits have been excluded from the above table because we cannot estimate the period of cash settlement with the respective taxing authorities.

Quantitative and Qualitative Disclosures about Market Risk

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

Foreign Currency Exposures

We have exposure to foreign currency exchange rate fluctuations on net income from our subsidiaries denominated in currencies other than U.S. dollars, as our foreign subsidiaries in Korea, 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 June 30, 2010 for our Korean subsidiary, a 10% devaluation of the Korean won against the U.S. dollar would have resulted in a decrease of $2.5 million in our U.S. dollar financial instruments and cash balances. Based on the Japanese yen cash balance at June 30, 2010, 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.

Interest Rate Exposures

On April 9, 2010, we completed the sale of $250 million in aggregate principal amount of 10.500% senior notes due 2018. The $61.6 million of total outstanding borrowings under our term loan was repaid on the same date. The $250 million 10.500% senior notes due 2018 are subject to changes in fair value due to interest rate changes. If the market interest rate increases by 10% and all other variables were held constant from their levels at June 30, 2010, we estimate that the fair value of this fixed rate note would decrease by $13.3 million and we would have additional interest expense costs over the market rate of $1.1 million (on a 360-day basis). If the market interest rate decreased by 10% and all other variables were held constant from their levels at June 30, 2010, we estimate that the fair value of this fixed rate note would increase by $14.3 million and we would have a reduction in interest expense costs over the market rate of $1.3 million (on a 360-day basis).

Critical Accounting Policies and Estimates

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

We believe that our significant accounting policies, which are described in notes 3 and 4 to the consolidated financial statements of MagnaChip Semiconductor LLC for the ten-month period ended October 25, 2009 and the two-month period ended December 31, 2009 included elsewhere in this prospectus, are critical due to the fact that they involve a high degree of judgment and estimates about the effects of matters that are inherently uncertain. We base these estimates and judgments on historical experience, knowledge of current conditions and other assumptions and information that we believe to be reasonable. Estimates and assumptions about future events and their effects cannot be determined with certainty. Accordingly, these estimates may change as new events occur, as more experience is acquired, as additional information is obtained and as the business environment in which we operate changes.

Revenue Recognition and Accounts Receivable Valuation

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

We recognize revenue upon shipment, upon delivery of the product at the customer s location or upon customer acceptance depending on terms of the arrangements, when the risks and rewards of ownership have passed to the customer. Certain sale arrangements include customer acceptance provisions that require written notification of acceptance within the pre-determined period from the date of delivery of the product. If the pre-determined period has ended without written notification, customer acceptance is deemed to have occurred pursuant to the underlying sales arrangements. In such cases, we recognize revenue the earlier of the written notification or the pre-determined period from date of delivery. Specialty semiconductor manufacturing services are performed pursuant to manufacturing agreements and purchase orders. Standard products are shipped and sold based upon purchase orders from customers. Our revenue recognition policy is consistent across our product lines, marketing venues and all geographic areas. All amounts billed to a customer related to shipping and handling are classified as sales, while all costs incurred by us for shipping and handling are classified as expenses. We currently manufacture a substantial portion of our products internally at our wafer fabrication facilities. In the future, we expect to rely, to some extent, on outside wafer foundries for additional capacity and advanced technologies.

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

Accrual of Warranty Cost

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

Inventory Valuation

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

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

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

Long-Lived Assets

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

Table of Contents

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

Intangible Assets

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

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

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

Income Taxes

We account for income taxes in accordance with ASC guidance addressing accounting for income taxes. The guidance requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in a company s financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement carrying values and the tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable for the period and the change during the period in deferred tax assets and liabilities.

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

Table of Contents

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

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

Accounting for Unit-Based Compensation

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

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

Determination of the fair value of our common units involves complex and subjective judgments regarding projected financial and operating results, our unique business risks, the liquidity of our units and our operating history and prospects at the time of grant. If we make different judgments or adopt different assumptions, material differences could result in the amount of the unit-based compensation expenses recorded because the estimated fair value of the underlying units for the options granted would be different.

Fresh-Start Reporting

As required by GAAP, in connection with emergence from Chapter 11 reorganization proceedings, we adopted the fresh-start accounting provisions of ASC 852 effective October 25, 2009. Under ASC 852, the reorganization value represents the fair value of the entity before considering liabilities and approximates the amount a willing buyer would pay for our assets immediately after restructuring. The reorganization value is allocated to the respective assets. Liabilities, other than deferred taxes and severance benefits, are stated at present values of amounts expected to be paid.

Fair values of assets and liabilities represent our best estimates based on our appraisals and valuations which incorporated industry data and trends and relevant market rates and transactions. These estimates and assumptions are inherently subject to significant uncertainties and contingencies beyond our reasonable control.

Cash Flow Hedges

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

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

Recent Accounting Pronouncements

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

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

Controls and Procedures

A company s internal control over financial reporting is a process designed by, or under the supervision of, the company s principal executive and principal financial officers, or persons performing similar functions, and is effected by the company s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles. As a private company we have designed our internal control over financial reporting to provide reasonable

assurance to our management and board of directors regarding the preparation and fair presentation of financial statements. Beginning with our fiscal year ending December 31, 2011, we will be subject to rules adopted by the Securities Exchange Commission, or SEC, pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, or Sarbanes-Oxley Act, which require us to include in our Annual Report on Form 10-K our management s report on, and assessment of the effectiveness of, our internal controls over financial reporting. In the event we complete the MagnaChip Corporation IPO, we may also in the future become subject to the requirement that our independent auditors will be required to attest to and report on the effectiveness of our internal control over financial reporting. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

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

Our management and our board of directors agree that the control deficiencies identified by our independent registered public accounting firm represent a material weakness. We have identified and are taking steps intended to remediate this material weakness. Upon being notified of the material weakness, we retained the services of an international accounting firm to temporarily supplement our internal resources. We recently recruited a new director of financial reporting. We are also actively recruiting additional financial staff with experiences with public reporting to increase the number of our financial personnel with the requisite financial accounting expertise. These actions are subject to ongoing senior management review, as well as audit committee oversight.

Although management has not remediated the material weakness mentioned above, management believes substantial progress has been made up to the date of this report. Executive officers assigned to each control deficiencies continue to oversee the necessary remedial changes to the overall design of our internal control environment. Management is responsible for and is committed to achieving and maintaining a strong control environment, high ethical standards, and financial reporting integrity. This commitment continues to be communicated to and reinforced with our employees.

Management s remediation initiatives are summarized below and are intended to address our material weaknesses in internal control over financial reporting:

Management continues to enhance our financial accounting capability. This includes:

(i) providing additional training to accounting personnel to strengthen their GAAP knowledge and ability to identify potential errors in the underlying financial reporting process, and

(ii) maintaining professional services from external professional firms to supplement internal resources during the transition period.

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

(i) defining key financial reporting schedule and action items,

Table of Contents

(ii) redefining our book closing checklist for each key responsible person and for each reviewer,

(iii) having regular meetings with financial reporting parties to update the significant accounting events and to review the identified accounting issues,

(iv) communicating with other non-financial reporting parties to ensure all non-routine and significant transactions are captured and analyzed by the accounting team, and

(v) monitoring key changes in GAAP and financial reporting requirements and analyzing the impact of changed GAAP or related regulation on the company.

BUSINESS

Our Business

We are a Korea-based designer and manufacturer of analog and mixed-signal semiconductor products for high-volume consumer applications. We believe we have one of the broadest and deepest analog and mixed-signal semiconductor technology platforms in the industry, supported by our 30-year operating history, large portfolio of approximately 2,655 registered novel patents and 900 pending novel patent applications and extensive engineering and manufacturing process expertise. Our business is comprised of three key segments: Display Solutions, Power Solutions and Semiconductor Manufacturing Services. Our Display Solutions products include display drivers that cover a wide range of flat panel displays and mobile multimedia devices. Our Power Solutions products include discrete and integrated circuit solutions for power management in high-volume consumer applications. Our Semiconductor Manufacturing Services segment provides specialty analog and mixed-signal foundry services for fabless semiconductor companies that serve the consumer, computing and wireless end markets.

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

We have a long history of supplying and collaborating on product and technology development with leading innovators in the consumer electronics market. As a result, we have been able to strengthen our technology platform and develop products and services that are in high demand by our customers and end consumers. We sold over 1,900 and 2,300 distinct products to over 335 and 185 customers for the six months ended June 30, 2010 and the combined twelve-month period ended December 31, 2009, with a substantial portion of our revenues derived from a concentrated number of customers. The increase in number of customers is due to the continuing growth of our Power Solutions business. Our largest semiconductor manufacturing services customers include some of the fastest growing and leading semiconductor companies that design analog and mixed-signal products for the consumer, computing, and wireless end markets.

For the six months ended June 30, 2010, on a pro forma basis, we generated net sales of $374.2 million, loss from continuing operations of $3.8 million, Adjusted EBITDA of $72.6 million and Adjusted Net Income of $40.6 million. For 2009, on an a combined pro forma basis, we generated net sales of $560.1 million, income from continuing operations of $46.6 million, Adjusted EBITDA of $98.7 million and Adjusted Net Income of $33.7 million. On June 12, 2009, we filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code and our plan of reorganization became effective on November 9, 2009. For 2008, we generated net sales of $601.7 million, losses from continuing operations of $325.8 million, Adjusted EBITDA of $59.8 million and Adjusted Net Loss of $71.7 million. See Unaudited Pro Forma Consolidated Financial Information beginning on page 51 for an explanation regarding our pro forma presentation and Prospectus Summary Summary Historical and Unaudited Pro Forma Consolidated Financial Data, beginning on page 13 for an explanation of our use of Adjusted EBITDA and Adjusted Net Income.

Market Opportunity

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

definition audio and video, mobile television and games. Consumer electronics manufacturers recognize that the consumer entertainment experience plays a critical role in differentiating their products. To address and further stimulate consumer demand, electronics manufacturers have been driving rapid advances in the technology, functionality, form factor, cost, quality, reliability and power consumption of their products. Electronics manufacturers are continuously implementing advanced technologies in new generations of electronic devices using analog and mixed-signal semiconductor components, such as display drivers that enable display of high resolution images, encoding and decoding devices that allow playback of high definition audio and video, and power management semiconductors that increase power efficiency, thereby reducing heat dissipation and extending battery life. These advanced generations of consumer devices are growing faster than the overall consumer electronics market. For example, according to Gartner, production of LCD televisions, smartphones, mobile PCs, and mini-notebooks is expected to grow from 2009 to 2013 by a compound annual growth rate of 12%, 36%, 24%, and 20%, respectively.

The user experience delivered by a consumer electronic device is substantially driven by the quality of the display, audio and video processing capabilities and power efficiency of the device. Analog and mixed-signal semiconductors enable and enhance these capabilities. Examples of these analog and mixed-signal semiconductors include display drivers, timing controllers, audio encoding and decoding devices, or codecs, and interface circuits, as well as power management semiconductors such as voltage regulators, converters, and switches. According to iSuppli, in 2009, the display driver semiconductor market was $6.0 billion and the power management semiconductor market was $21.9 billion.

Requirements of Leading Consumer Electronics Manufacturers

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

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

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

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

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

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

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

Our Competitive Strengths

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

Advanced Analog and Mixed-Signal Semiconductor Technology and Intellectual Property Platform. We believe we have one of the broadest and deepest analog and mixed-signal semiconductor technology platforms in the industry. Our long operating history, large patent portfolio, extensive engineering and manufacturing process expertise and wide selection of analog and mixed-signal intellectual property libraries allow us to leverage our technology and develop new products across multiple end markets. Our product development efforts are supported by a team of approximately 391 engineers. Our platform allows us to develop and introduce new products quickly as well as to integrate numerous functions into a single product. For example, we were one of the first companies to introduce a commercial AMOLED display driver for mobile phones.

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

Longstanding Presence in Asia and Proximity to Global Consumer Electronics Supply Chain. Our presence in Asia facilitates close contact with our customers, fast response to their needs and enhances our visibility into new product opportunities, markets and technology trends. According to Gartner, semiconductor consumption in Asia, excluding Japan, has increased from 49% of global production in 2004 to 60% in 2009 and is projected to grow to 65% by 2013. Our substantial manufacturing operations in Korea and design centers in Korea and Japan place us close to many of our largest customers and to the core of the global consumer electronics supply chain. We have active applications, engineering, product design, and customer support resources, as well as senior management and marketing resources, in geographic locations close to our customers. This allows us to strengthen our relationship with customers through better service, faster turnaround time and improved product design

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

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

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

Highly Efficient Manufacturing Capabilities. Our manufacturing strategy is focused on maintaining the price competitiveness of our products and services through our low-cost operating structure. We believe the location of our primary manufacturing and research and development facilities in Asia and relatively low required ongoing capital expenditures provide us with a number of cost advantages. We offer specialty analog process technologies that do not require substantial investment in leading edge, smaller geometry process equipment. We are able to utilize our manufacturing base over an extended period of time and thereby minimize our capital expenditure requirements. Our internal manufacturing facilities serve both our solutions products and manufacturing services customers, allowing us to optimize our asset utilization and improve our operational efficiency.

Strong Financial Model with a Low-Cost Structure. We have executed a significant restructuring over the last 18 months, which combined with our relatively low capital investment requirements, has improved our cash flow and profitability. By closing our Imaging Solutions business, restructuring our balance sheet, and refining our business processes and strategy, we believe we have made significant structural improvements to our operating model and have enabled better flexibility to manage the fluctuations in the economy and our markets. In addition, the long lifecycles of our manufacturing processes, equipment and facilities allow us to keep our new capital requirements relatively low. We believe that our low-cost but highly skilled design and support engineers and manufacturing base position us favorably to compete in the marketplace and provide operating leverage in our operating model.

Our Strategy

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

Leverage Our Advanced Analog and Mixed-Signal Technology Platform to Innovate and Deliver New Products and Services. We intend to continue to utilize our extensive patent

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

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

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

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

Drive Execution Excellence. We have significantly improved our execution through a number of management initiatives implemented under the direction of our Chief Executive Officer and Chairman, Sang Park. As an example, we have introduced new processes for product development, customer service and personnel development. We expect these ongoing initiatives will continue to improve our new product development and customer service as well as enhance our commitment to a culture of quick action and execution by our workforce. In

addition, we have focused on and continually improved our manufacturing efficiency during the past several years. As a result of our focus on execution excellence, we have also meaningfully reduced our time from new product definition to development completion. For example, we have improved our average development turnaround time by over 40% over the last three years for semiconductor manufacturing services by implementing continuous business process improvement initiatives and we improved our manufacturing productivity per operator by 22% from the fourth quarter of 2008 to the fourth quarter of 2009.

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

Our Technology

We continuously strengthen our advanced analog and mixed-signal semiconductor technology platform by developing innovative technologies and integrated circuit building blocks that enhance the functionality of consumer electronics products through brighter 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.

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, or 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 smart mobile luminance control, or SMLC, algorithm.

We have a long history of specialized process technology development and have a number of distinctive process implementations. We have approximately 200 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 and BCDMOS. Our manufacturing processes incorporate embedded memory solutions such as static random access memory, or SRAM, one-time programmable, or OTP, memory, multiple-time programmable, or MTP, memory, electronically erasable programmable read only memory, or EEPROM, and single-transistor random access memory, or 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 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 DC-DC converters, linear regulators, including LDO, regulators and analog switches, and power

Table of Contents

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.

Our Products and Services

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 QVGA (240RGB x 320) to QHD (960RGB x 540).

- ***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 and 12-bit source drivers.

- ***Operational Voltage.*** Display drivers are characterized by input and output voltages. Source drivers typically operate at input voltages from 2.0 to 3.6 volts and output voltages between 4.5 and 18 volts. Gate drivers typically operate at input voltages from 2.0 to 3.6 volts and output voltages of up to 40 volts. Lower input voltage results in lower power consumption and electromagnetic interference, or EMI.

- ***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 transistor-to-transistor logic, or TTL, reduced swing differential signaling, or RSDS, advance intra panel I/F, or AIPI, and mini-low voltage differential signaling, or m-LVDS.

- ***Package Type.*** The assembly of display drivers typically uses chip-on-film, or COF, tape carrier package, or TCP, 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 high definition televisions, or HDTVs, LED TVs, LCD monitors and mobile 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

107

Table of Contents

advanced technologies such as high channel count, with products under development to provide up to 960 channels. We also offer a distinctive interface technology known as LCDS, which supports thinner displays for mobile PCs. 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:

Product	Key Features	Applications
TFT-LCD Source Drivers	480 to 960 output channels 6-bit (262 thousand colors), 8-bit (16 million colors), 10-bit (1 billion colors) Output voltage ranging from 3.3V to 18V Low power consumption and low EMI Supports COF package types Supports RSDS, m-LVDS, AiPi* interface technologies Geometries of 0.18µm to 0.22µm	LCD monitors, including widescreens Mobile PCs, including netbooks Digital televisions, including LED TVs
TFT-LCD Gate Drivers	272 to 768 output channels Output voltage ranging up to 40V Supports COF and COG package types Geometries of 0.35µm	LCD monitors, including widescreens Mobile PCs, including netbooks Digital televisions, including LED TVs
Timing Controllers	Product portfolio supports a wide range of resolutions Supports m-LVDS interface technologies Input voltage ranging from 2.3V to 3.6V Geometries of 0.18µm	LCD monitors, including widescreens Mobile PCs, including netbooks

* In customer qualification stage

Mobile Display Solutions. Our mobile display solutions incorporate the industry s most advanced display technologies, such as LTPS and AMOLED, as well as high-volume technologies

108

Table of Contents

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, or MDDI, and mobile industry processor interface, or MIPI, as well as multi-time programmable, or MTP, memories, using EEPROM 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 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 SMLC, ambient light-based brightness control, or LABC, automatic brightness control, or ABC, and automatic current limit, or 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:

Product	Key Features	Applications
LTPS	Resolutions of QVGA, WQVGA, VGA, NHD*, SVGA Color depth ranging from 262 thousand to 16 million MDDI, MIPI interface EEPROM and logic-based OTP, separated gamma control	Mobile phones Digital still cameras
AMOLED	Resolutions of WQVGA, HVGA, NHD*, WVGA, QHD Color depth ranging from 262 thousand to 16 million Geometries of 0.11µm to 0.15µm MDDI, MIPI interface EEPROM and logic-based OTP ABC, ACL, Pentile	Mobile phones Game consoles Digital still cameras Personal digital assistants Portable media players
a-Si TFT	Resolutions of QVGA, WQVGA, HVGA, WVGA, WSVGA, HD Color depth ranging from 262 thousand to 16 million	Mobile phones Game consoles Netbooks Portable navigation devices

MDDI, MIPI interface

Content adaptive brightness control, or CABC

LVDS, I(2)C*, DCDC*

Separated gamma control

* In customer qualification stage

Table of Contents

Power Solutions

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

MOSFET. Our MOSFETs include low-voltage Trench MOSFETs, 20V to 100V, and high-voltage Planar MOSFETs, 400V through 600V. MOSFETs are used in applications to switch, shape or transfer electricity under varying power requirements. The key application segments are mobile phones, LCD televisions, desktop computers 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.

LED Drivers. LED driver solutions serve the fast-growing LCD panel backlighting market for LCD televisions and mobile 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.

DC-DC Converters. We plan to release DC-DC converters targeting mobile applications and high power applications like LCD televisions, set-top boxes, DVD/Blu-ray players and display modules. We expect our DC-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.

Table of Contents

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:

Product	Key Features	Applications
Low Voltage MOSFET	V(ds)(V) options of 20V 100V R(ds)(on) options of Max 5m W 50m W at 10V Advanced 0.35µm Trench MOSFET Process High cell density of 268Mcell/inch(2) Advanced packages to enable reduction of PCB mounting area	Mobile phones Desktop computers Mobile PCs Digital TVs
High Voltage MOSFET	Voltage options of 400, 500, and 600V Drain current options of 1A 18A. R(ds)(on) options of 0.22~8.0 * W (typical) R(2)FET (rapid recovery) option to shorten reverse diode recovery time Zenor FET option for MOSFET protection for abnormal input Advanced 0.50µm Planar MOSFET Process	Power supplies for consumer electronics Industrial charger and adaptors Lighting (ballast, HID, LED) Industrial equipment
LED Drivers	High efficiency, wide input voltage range Proven 0.35µm BCDMOS process 40V modular BCDMOS OCP, SCP, OVP and UVLO protections Accurate LED current control and multi-channel matching Programmable current limit, boost up frequency	LED backlights
DC-DC Converters*	High efficiency, wide input voltage range Proven 0.35µm BCDMOS process 30V modular BCDMOS Fast load and line regulation Accurate output voltage OCP, SCP and thermal protections	LCD TVs Set-top boxes DVD/Blu-ray players

Table of Contents

Product	Key Features	Applications
Analog Switches	*USB Switches* Low C(on), 7.0pF (typical) limits signal distortion Low R(on), 4.0 W (typical) 0.35μm CMOS process *Audio Switches* Negative Swing Support Low R(on), 0.4 W (typical) High ESD protection, 13kV 0.35μm CMOS process	Mobile phones
Linear Regulators	Single and dual* LDOs Low Noise Output Linear μCap LDO Regulator 2.3V to 5.5V input voltage and 150mA, 300mA* output current Small package size of DFN type 0.35μm CMOS process	Mobile phones

* In customer qualification stage

Semiconductor Manufacturing Services

We provide semiconductor manufacturing services to analog and mixed-signal semiconductor companies. We have approximately 200 process flows we offer to our semiconductor 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 semiconductor manufacturing services offering is 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, or AS Tech, 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.

Process Technology Overview

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. 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 functionality such as self-regulation, internal protection, and other

Table of Contents

intelligent features. The 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, or 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 currently in mass production:

Process	Technology	Device	End Markets
Mixed-signal	0.13-0.8μm	Analog to digital converter	Consumer Wireless Computing
	Multipurpose	Digital to analog converter	
	Low noise	Audio codec	
	Ultra low power	Chipset	
	Triple gate		
Power	0.18-0.35μm	Power management	Consumer Wireless Computing
	aBCD	Mobile PMIC	
	Deep Trench Isolation	LED drivers	
	Trench MOSFET		

	Planar MOSFET		
	Schottky Diode		
	Zener Diode		
High Voltage CMOS	0.13-2.0μm	Display drivers	Consumer
			Wireless
	5V-250V	CSTN drivers	Computing
	Bipolar, Thick Metal		
NVM	0.18-0.5μm	Microcontroller	Consumer
			Medical
	EEPROM	Touch screen controller	Automotive
	eFlash	Electronic tag	
	OTP	Hearing aid	

Manufacturing and Facilities

Our manufacturing operations consist of three fabrication facilities located at two sites in Cheongju and Gumi in Korea. These sites have a combined capacity of approximately 131,000 eight-inch equivalent wafers per month. We manufacture wafers utilizing geometries ranging from 0.11 to 2.0 micron. The Cheongju facilities have three main buildings totaling 164,058 square meters devoted to manufacturing and development. The Gumi facilities have one main building with 41,022 square meters devoted to manufacturing, testing and packaging.

Table of Contents

In addition to our fabrication facilities, we lease facilities in Seoul, Korea, Cupertino, California, and Osaka, Japan. Each of these facilities includes administration, sales and marketing and research and development functions. We lease sales and marketing offices at 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.

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, Taiwan, 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.

We use processes that require specialized raw materials that are generally available from a limited number of suppliers. Tape is one of the process materials required for our display drivers. We continue to attempt to qualify additional suppliers for our raw materials.

Although we own our manufacturing facilities, we are party to a land lease and easement agreement with Hynix pursuant to which we lease the land for our facilities in Cheongju, Korea from Hynix for an indefinite term. Because we share certain facilities with Hynix, several services that are essential to our business are provided to us by or through Hynix under our general service supply agreement with Hynix. These services include electricity, bulk gases and de-ionized water, campus facilities and housing, wastewater and sewage management, environmental safety and certain utilities and infrastructure support services. 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.

Sales and Marketing

We focus our sales and marketing strategy on creating and strengthening our relationships with leading consumer electronics OEMs, as well as analog and mixed-signal semiconductor companies. 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 centers in Korea and Japan, as well as our local sales and support offices in Greater China and Europe. We have a network of agents and distributors in Korea, Japan, Europe and Greater China. With the expansion of the Power Solutions division portfolio, we expect to expand our sales agents and distributor franchises into Europe and the United States in 2010. For the six months ended June 30, 2010 and the combined twelve-month period ended December 31, 2009, we derived 79% and 82% of net sales through our direct sales force, respectively, and 21% and 18% of net sales through our network of authorized agents and distributors, respectively.

Table of Contents

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 six months ended June 30, 2010, the combined twelve- month period ended December 31, 2009 and the years ended December 31, 2008 and 2007 were $41.1 million, $70.9 million, $89.5 million and $90.8 million, respectively, representing 11.0%, 12.7%, 14.9% and 12.8% of net sales, respectively.

Customers

We sell our display solutions and power solutions products to consumer electronics OEMs as well as subsystem designers and contract manufacturers. We sell our semiconductor manufacturing services to analog and mixed-signal semiconductor companies. For the six months ended June 30, 2010 and the combined twelve-month period ended December 31, 2009, our ten largest customers accounted for 64% and 69% of our net sales, respectively, and we had one customer, LG Display, representing 19% and 26% of our consolidated net sales, for the six months ended June 30, 2010 and the combined twelve-month period ended December 31, 2009, respectively. Substantially all of our sales to LG Display are in our Display Solutions segment and sales to LG Display represented 44% and 51% of net sales in our Display Solutions segment in the six months ended June 30, 2010 and the combined twelve-month period ended December 31, 2009, respectively. Our relationships with some of our ten largest customers were and may continue to be adversely impacted by our reorganization proceedings. Some of these customers did not offer us the opportunity to compete for new design wins during the pendency of our reorganization proceedings. However, subsequent to our emergence from our reorganization proceedings we have again been provided an opportunity to compete for these projects. For the six months ended June 30, 2010, we received revenues of $43.4 million from customers in the United States and $330.8 million from all foreign countries, of which 60.1% was from Korea, 21.9% from Taiwan, 7.0% from Japan and 8.5% from China, Hong Kong and Macau. For the combined twelve-month period ended December 31, 2009, we received revenues of $59.0 million from customers in the United States and $501.1 million from all foreign countries, of which 61.2% was from Korea, 18.5% from Taiwan, 7.6% from Japan and 9.6% from China, Hong Kong and Macau.

Intellectual Property

As of August 31, 2010, our portfolio of intellectual property assets included approximately 3,395 registered patents and 1,155 pending patent applications. Approximately 2,655 and 900 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 995 registered and pending patents that relate to identical technical claims in our base patent portfolio. Our patents expire at various times 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.

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 our 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 prior to the expiration of these licenses by the licensors 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, Hynix retained a perpetual license

to use the intellectual property that we acquired from Hynix in the Original Acquisition. Under this license, 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 3,378 employees (full- and part-time) as of August 31, 2010, of which 388 were involved in sales, marketing, general and administrative, 391 were in research and development (including 204 with advanced degrees), 109 were in quality, reliability and assurance and 2,490 were in manufacturing (comprised of 349 in engineering and 2,141 in operations). As of August 31, 2010, 2,203 employees, or approximately 65.2% of our workforce, were represented by the MagnaChip Semiconductor Labor Union, which is a member of the Federation of Korean Metal Workers Trade Unions. We believe our labor relations are good.

Environmental

Our operations 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, constantly changing and have tended to become more stringent over time. For example, the Korean government recently adopted the Enforcement Decree to the Framework Act on Low Carbon Growth which we expect will result in additional compliance obligations and costs. There can be no assurance that we have been or will be in compliance with all 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, any 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.

Legal Proceedings

We are subject to lawsuits and claims that arise in the ordinary course of business and intellectual property litigation and infringement claims. Intellectual property litigation and infringement

Table of Contents

claims, in particular, could cause us to incur significant expenses or prevent us from selling our products. We are currently not involved in any legal proceedings the outcome of which we believe would have a material adverse effect on our business, financial condition or results of operations.

Segments

For a description of our business and the distribution of our assets by geographic regions and reporting segments, see note 15 to the interim consolidated financial statements for MagnaChip Semiconductor LLC for six months ended June 30, 2010 and note 23 to the consolidated financial statements of MagnaChip Semiconductor LLC for the ten-month period ended October 25, 2009 and the two-month period ended December 31, 2009 included elsewhere in this prospectus.

117

Table of Contents

MANAGEMENT

Directors and Executive Officers and Corporate Governance.

The following table is a list of the current directors and executive officers of MagnaChip and their respective ages as of August 31, 2010:

Name	Age	Position
Sang Park	63	Chairman of the Board of Directors and Chief Executive Officer
Tae Young Hwang	54	Chief Operating Officer and President
Brent Rowe	49	Senior Vice President, Worldwide Sales
Margaret Sakai	53	Senior Vice President and Chief Financial Officer
Heung Kyu Kim	46	Senior Vice President and General Manager, Power Solutions Division
Tae Jong Lee	47	Senior Vice President and General Manager, Corporate Engineering
John McFarland	43	Senior Vice President, General Counsel and Secretary
Michael Elkins	42	Director
Randal Klein	45	Director
R. Douglas Norby	74	Director
Gidu Shroff	65	Director
Steven Tan	34	Director
Nader Tavakoli	52	Director

Sang Park, Chairman of the Board of Directors and Chief Executive Officer. Mr. Park became our Chairman of the board of directors and Chief Executive Officer on January 1, 2007, after serving as President, Chief Executive Officer and director since May 2006. Mr. Park served as an executive fellow for iSuppli Corporation from January 2005 to May 2006. Prior to joining iSuppli, he was founder and president of SP Associates, a consulting services provider for technology companies, from September 2003 to December 2004. Mr. Park served as Chief Executive Officer of Hynix from May 2002 to March 2003, and as Chief Operating Officer and President of the Semiconductor Division of Hynix from July 1999 to April 2002. Prior to his service at Hynix, Mr. Park was Vice President of Procurement Engineering at IBM in New York from 1995 to 1999, and he held various positions in procurement and operations at Hewlett Packard in California from 1979 to 1995. Our board of directors has concluded that Mr. Park should serve as a director and as chairman of the board of directors based on his extensive experience as an executive, investor and director in our industry and his experience and insight as our Chief Executive Officer.

Tae Young Hwang, Chief Operating Officer and President. Mr. Hwang became our Chief Operating Officer and President in November 2009. He previously served as our Executive Vice President, Manufacturing Division, and General Manager, Display Solutions from January 2007, and our Executive Vice President of Manufacturing Operations from October 2004. Prior to that time, Mr. Hwang served as Hynix s Senior Vice President of Manufacturing Operations, System IC, from 2002 to 2003. From 1999 to 2001, he was Vice President of Cheongju Operations for Hynix. Mr. Hwang holds a B.S. degree in Mechanical Engineering from Pusan National University and an M.B.A. from Cheongju University.

Brent Rowe, Senior Vice President, Worldwide Sales. Mr. Rowe became our Senior Vice President, Worldwide Sales in April 2006. Prior to joining our company, Mr. Rowe served at Fairchild Semiconductor International, Inc., a semiconductor manufacturer, as Vice President, Americas Sales and Marketing from August 2003 to October 2005; Vice President, Europe Sales and Marketing from August 2002 to August 2003; and Vice President, Japan Sales and Marketing from April 2002 to August 2002. Mr. Rowe holds a B.S. degree in Chemical Engineering from the University of Illinois.

Table of Contents

Margaret Sakai, Senior Vice President and Chief Financial Officer. Ms. Sakai became our Senior Vice President, Finance, on November 1, 2006 and our Chief Financial Officer on April 10, 2009. Prior to joining our company, she served as Chief Financial Officer of Asia Finance and Vice President of Photronics, Inc., a manufacturer of reticles and photomasks for semiconductor and microelectronic applications, since November 2003. From June 1999 to October 2003, Ms. Sakai was Executive Vice President and Chief Financial Officer of PKL Corporation, a photomask manufacturer. From October 1995 to May 1999, Ms. Sakai served as Director of Finance of Acqutek International Limited, a lead-frame manufacturer, and from March 1992 to September 1995, Ms. Sakai served as Financial Manager at National Semiconductor Corporation. Ms. Sakai worked as an Audit Supervisor at Coopers & Lybrand from January 1988 to March 1992. Ms. Sakai is a Certified Public Accountant in the State of California and holds a B.A. degree in Accounting from Babson College.

Heung Kyu Kim, Senior Vice President and General Manager, Power Solutions Division. Mr. Kim became our Senior Vice President and General Manager, Power Solutions Division, in July 2007. Prior to joining our company, Mr. Kim served at Fairchild Semiconductor International, Inc., a semiconductor manufacturer, as Vice President of the Power Conversion Product Line from July 2003 to June 2007, and as Director of Korea Sales and Marketing from April 1999 to June 2003. Mr. Kim holds a B.S. degree in Metallurgical Engineering from Korea University.

Tae Jong Lee, Senior Vice President and General Manager, Corporate Engineering. Mr. Lee became our Senior Vice President and General Manager, Corporate Engineering, in August 2009. He previously served as our Vice President, Corporate Engineering from September 2007. Prior to joining our company, Mr. Lee served as Director of the Technology Development Division, Chartered Semiconductor Manufacturing, in Singapore from 1999 to August 2007. Mr. Lee holds B.S. and M.S. degrees from Seoul National University, and a Ph.D in Physics from the University of Texas at Dallas.

John McFarland, Senior Vice President, General Counsel and Secretary. Mr. McFarland became our Senior Vice President, General Counsel and Secretary in April 2006, after serving as Vice President, General Counsel and Secretary since November 2004. Prior to joining our company, Mr. McFarland served as a foreign legal consultant at Bae, Kim & Lee, a law firm, from August 2003 to November 2004 and an associate at Wilson Sonsini Goodrich & Rosati, P.C., a law firm, from August 2000 to July 2003. Mr. McFarland holds a B.A. degree in Asian Studies, conferred with highest distinction from the University of Michigan, and a J.D. degree from the University of California, Los Angeles, School of Law.

Michael Elkins, Director. Mr. Elkins became our director in November 2009. Mr. Elkins joined Avenue in 2004 and is currently a Portfolio Manager of the Avenue U.S. Funds. In such capacity, Mr. Elkins is responsible for assisting with the direction of the investment activities of the Avenue U.S. strategy. Due to the percentage of our equity owned or controlled by Avenue, Avenue is considered our affiliate. Prior to joining Avenue, Mr. Elkins was a Portfolio Manager and Trader with ABP Investments US, Inc. While at ABP, he was responsible for actively managing high yield investments using a total return-special situations overlay strategy. Prior to ABP, Mr. Elkins served as a Portfolio Manager and Trader for UBK Asset Management, after joining the company as a High Yield Credit Analyst. Previously, Mr. Elkins was a Credit Analyst for both Oppenheimer & Co., Inc. and Smith Barney, Inc. Mr. Elkins has served on the board of directors of Vertis Communication, an advertising services company, since October 2008, and Milacron LLC, a plastics-processing technologies and industrial fluids supplier, since April 2009. Mr. Elkins serves on the board of directors of each of these companies, both of which are private companies, in connection with a reorganization or refinancing involving affiliates of Avenue and serves as a result of his position with Avenue. Mr. Elkins holds a B.A. in Marketing from George Washington University and an M.B.A. in Finance from the Goizueta Business School at Emory University. Mr. Elkins was appointed to our board of directors by Avenue

pursuant to our plan of reorganization and pursuant to our Fifth Amended and Restated Limited Liability Company Operating Agreement, which we refer to as our Operating Agreement. Our board of directors has concluded that Mr. Elkins should serve on the board based upon his 15 years of investment portfolio management experience, including 10 years investing in technology companies, including the semiconductor sector.

Randal Klein, Director. Mr. Klein became our director in November 2009. Mr. Klein joined Avenue, our affiliate, in 2004 and is currently a Portfolio Manager at Avenue focused on investments in trade claims and vendor financing. Previously, he was a Senior Vice President of the Avenue U.S. Funds. In such capacity, Mr. Klein was responsible for managing restructuring activities and identifying, analyzing and modeling investment opportunities for the Avenue U.S. strategy. Prior to joining Avenue, Mr. Klein was a Senior Vice President at Lehman Brothers, where his responsibilities included restructuring advisory work, financial sponsors coverage, mergers and acquisitions and corporate finance. Prior to Lehman, Mr. Klein worked in sales, marketing and engineering as an aerospace engineer for The Boeing Company. Mr. Klein holds a B.S. in Aerospace Engineering, conferred with Highest Distinction from the University of Virginia, and an M.B.A. in Finance from the Wharton School of the University of Pennsylvania. Mr. Klein was appointed to our board of directors by Avenue pursuant to our plan of reorganization and pursuant to our Operating Agreement. Our board of directors has concluded that Mr. Klein should serve on the board based upon his 15 years of experience as a financial advisor and investment manager.

R. Douglas Norby, Director and Chairman of the Audit Committee. Mr. Norby became our director and Chairman of the Audit Committee in March 2010. Mr. Norby retired from full time employment in July 2006. Mr. Norby previously served as our director and Chairman of the Audit Committee from May 2006 until October 2008. Mr. Norby served as Senior Vice President and Chief Financial Officer of Tessera Technologies, Inc., a public semiconductor intellectual property company, from July 2003 to January 2006. Mr. Norby worked as a management consultant with Tessera from May 2003 until July 2003 and from January 2006 to July 2006. Mr. Norby served as Chief Financial Officer of Zambeel, Inc., a data storage systems company, from March 2002 until February 2003, and as Senior Vice President and Chief Financial Officer of Novalux, Inc., an optoelectronics company, from December 2000 to March 2002. Prior to his tenure with Novalux, Inc., Mr. Norby served as Executive Vice President and Chief Financial Officer of LSI Logic Corporation from November 1996 to December 2000. Mr. Norby is a director of Alexion Pharmaceuticals, Inc. and STATS ChipPAC Ltd. Mr. Norby received a B.A. degree in Economics from Harvard University and an M.B.A. from Harvard Business School. Our board of directors has concluded that Mr. Norby should serve on our board based upon his extensive experience as a chief financial officer, his extensive experience in accounting and his experience as a public company director and audit committee chair.

Gidu Shroff, Director. Mr. Shroff became our director in March 2010. Mr. Shroff retired from full time employment in July 2009. Mr. Shroff served in various positions at Intel Corporation from 1980 to July 2009. He served as a Corporate Vice President from January 2002 to July 2009, as Vice President of Materials from December 1997 to January 2002, and as General Manager of Outsourcing from January 1990 until December 1997. Mr. Shroff holds a B.S. in Metallurgy from Poona Engineering University in India, an M.S. in Materials Science from Stanford University and an M.B.A. from Santa Clara University. Our board of directors has concluded that Mr. Shroff should serve on the board based upon his extensive experience in the semiconductor industry.

Steven Tan, Director. Mr. Tan became our director in November 2009. Mr. Tan joined Avenue, our affiliate, in 2005 and is currently a Vice President of the Avenue U.S. Funds. In such capacity, Mr. Tan is responsible for identifying and analyzing investment opportunities in the technology and telecommunications sectors for the Avenue U.S. strategy. Previously, Mr. Tan was a research analyst in the Avenue Event Driven Group where he was responsible for investments related to long/short

equity, special situations and risk arbitrage. Prior to Avenue, Mr. Tan worked at Wasserstein Perella & Co., an investment and merchant bank, where he was a Mergers & Acquisitions analyst with the Industrial Group focusing on the automotive and industrial sectors. Mr. Tan holds a B.A. in Mathematics and Economics from Wesleyan University and an M.B.A. from the Harvard Business School. Mr. Tan was appointed to our board of directors by Avenue pursuant to our plan of reorganization and pursuant to our Operating Agreement. Our board of directors has concluded that Mr. Tan should serve on the board based on his five years of experience as an analyst and investment manager.

Nader Tavakoli, Director. Mr. Tavakoli became our director in November 2009. Mr. Tavakoli has been Chairman and Chief Executive Officer of EagleRock Capital Management, a private investment firm based in New York City since January 2002. Prior to founding EagleRock, Mr. Tavakoli was a portfolio manager at Odyssey Partners, Highbridge Capital and Cowen and Co. Mr. Tavakoli holds a B.A. in History from Montclair State University and a J.D. from Rutgers School of Law. Our board of directors has concluded that Mr. Tavakoli should serve on the board based upon his extensive investing experience.

Involvement in Certain Legal Proceedings

Sang Park was the Chairman of our board of directors and Chief Executive Officer and Tae Young Hwang, Brent Rowe, Margaret Sakai, Heung Kyu Kim, Tae Jong Lee and John McFarland were each officers during our Chapter 11 reorganization proceedings. R. Douglas Norby was one of our directors until September 2008. Mr. Norby was also an officer of Novalux, Inc., a private company, which filed a voluntary petition for reorganization under Chapter 11 in March 2003, approximately one year after Mr. Norby s departure from Novalux, Inc.

Board Composition

Our board of directors currently consists of seven directors and if and when we consummate the MagnaChip Corporation IPO, our bylaws will provide that our board of directors consists of seven members. Mr. Park, our Chief Executive Officer, is the Chairman of our board of directors. Messrs. Elkins, Klein, and Tan were designated to serve on our board by our largest equity holder, which consists of funds affiliated with Avenue Capital Management II, L.P., which has the right to appoint a majority of our board pursuant to the Operating Agreement of MagnaChip Semiconductor LLC which will terminate upon the completion of the corporate conversion. Messrs. Norby, Shroff and Tavakoli serve as independent directors elected by a majority vote of the directors then in office at the time of their election in accordance with our Operating Agreement. A majority of our board is not currently independent as defined under SEC and NYSE rules. In accordance with applicable rules of the NYSE (assuming the consummation of the MagnaChip Corporation IPO), we will rely upon an exception that does not require us to satisfy the requirement that a majority of our board be independent until one year following initial listing. We expect that prior to the one year anniversary of our initial NYSE listing, the composition of our board will be changed such that a majority of our directors will be independent. If we fail to comply with the NYSE listing rules, our common stock could be delisted from the NYSE.

If and when we complete the MagnaChip Corporation IPO, our board of directors will be divided into three classes with staggered three-year terms as follows:

Class I Directors will be Messrs. Norby and Shroff, and their terms will expire at the annual general meeting of stockholders to be held in 2011;

Class II Directors will be Messrs. Klein and Tavakoli, and their terms will expire at the annual general meeting of stockholders to be held in 2012; and

Class III Directors will be Messrs. Elkins, Park and Tan, and their terms will expire at the annual general meeting of stockholders to be held in 2013.

Audit Committee

Our audit committee consists of Mr. Norby as Chairman and Messrs. Klein and Tavakoli. Our board of directors has determined that Mr. Norby is an audit committee financial expert as defined in Item 407(d)(5) of Regulation S-K promulgated under the Securities Act. Our board has also determined that Messrs. Norby and Tavakoli are independent as that term is defined in both Rule 303A of the NYSE rules and Rule 10A-3 promulgated under the Securities Exchange Act of 1934, as amended, or the Exchange Act, and, upon the closing of the MagnaChip Corporation IPO, will each be an independent director as that term is defined in Rule 303A of the NYSE rules. In making this determination, our board of directors considered the relationships that Messrs. Norby and Tavakoli have with our company and all other facts and circumstances our board of directors deemed relevant in determining their independence, including any beneficial ownership of our equity. The board has determined that Mr. Klein is not an independent director. In accordance with applicable rules of the NYSE (assuming the consummation of the MagnaChip Corporation IPO), we are relying upon an exception that allows us to phase in our compliance with the independent audit committee requirement as follows, (i) one independent member at the time of listing; (ii) a majority of independent members within 90 days of listing; and (iii) all independent members within one year of listing. We expect that prior to the one year anniversary of our initial NYSE listing, Mr. Klein will resign from the audit committee and at least one new independent director will be appointed. If we fail to comply with the NYSE listing rules after the completion of the MagnaChip Corporation IPO, our common stock could be delisted from the NYSE.

Compensation Committee

The compensation committee of the board has overall responsibility for evaluating and approving our executive officer and director compensation plans, policies and programs, as well as all equity-based compensation plans and policies. We expect that our compensation committee will consist of Messrs. Elkins, Klein and Tavakoli upon the consummation of the MagnaChip Corporation IPO. Our board has determined that Mr. Tavakoli is independent under NYSE and SEC rules. In making this determination, our board of directors considered the relationships that Mr. Tavakoli has with our company and all other facts and circumstances our board of directors deemed relevant in determining his independence, including any beneficial ownership of our equity. The board has determined that Messrs. Elkins and Klein are not independent directors. In accordance with applicable rules of the NYSE (assuming the consummation of the MagnaChip Corporation IPO), we are relying upon an exception that allows us to phase in our compliance with the independent compensation committee requirement as follows, (i) one independent member at the time of listing; (ii) a majority of independent members within 90 days of listing; and (iii) all independent members within one year of listing. We expect that prior to the applicable dates, the composition of our compensation committee will be changed such that we will be in compliance with the independent compensation committee requirement.

Nominating and Governance Committee

The nominating and governance committee has the responsibility to identify qualified individuals to become members of the board, to oversee an annual evaluation of the board of directors and its committees, to periodically review and recommend to the board any proposed changes to our corporate governance guidelines and to monitor our corporate governance structure. We expect that our nominating and corporate governance committee will consist of Messrs. Elkins, Shroff and Tan upon consummation of the MagnaChip Corporation IPO. Our board has determined that Mr. Shroff is independent under NYSE and SEC rules. In making this determination, our board of directors considered the relationships that Mr. Shroff has with our company and all other facts and circumstances our board of directors deemed relevant in determining his independence, including any

beneficial ownership of our equity. The board has determined that Messrs. Elkins and Tan are not independent directors. In accordance with applicable rules of the NYSE (assuming the consummation of the MagnaChip Corporation IPO), we are relying upon an exception that allows us to phase in our compliance with the independent nominating and corporate governance committee requirement as follows, (i) one independent member at the time of listing; (ii) a majority of independent members within 90 days of listing; and (iii) all independent members within one year of listing. We expect that prior to the applicable dates, the composition of our nominating and corporate governance committee will be changed such that we will be in compliance with the independent nominating and corporate governance committee requirement.

Code of Business Conduct and Ethics

We have adopted a Code of Business Conduct and Ethics that applies to all of our directors, officers and employees. We will provide a copy of our Code of Business Conduct and Ethics without charge to any person upon written request made to our Senior Vice President, General Counsel and Secretary at c/o MagnaChip Semiconductor, Ltd., 891 Daechi-dong, Gangnam-gu, Seoul, 135-738, Korea. Our Code of Business Conduct and Ethics is also available on our website at www.magnachip.com.

Assessment of Risk

Our board of directors believes that our compensation programs are designed such that they will not incentivize unnecessary risk-taking. The base salary component of our compensation program is a fixed amount and does not depend on performance. Our cash incentive program takes into account multiple factors, thus diversifying the risk associated with any single performance factor, and we believe it does not incentivize our executive officers to focus exclusively on short-term outcomes. Our equity awards are limited by the terms of our equity plans to a fixed maximum specified in the plan, and are subject to vesting to align the long-term interests of our executive officers with those of our equityholders.

Compensation Discussion and Analysis

Executive Compensation

Compensation Philosophy and Objectives

The compensation committee of our board of directors, or the Committee, has overall responsibility for administering our compensation program for our named executive officers. The Committee s responsibilities consist of evaluating, approving and monitoring our executive officer and director compensation plans, policies and programs, as well as each of our equity-based compensation plans and policies. Prior to 2010, compensation decisions were made by the entire board of directors and for the discussion that follows, references to the Committee during such period refer to the entire board. For 2009, our named executive officers who continue to serve as executive officers were:

- Sang Park, Chairman of the Board of Directors and Chief Executive Officer;
- Tae Young Hwang, Chief Operating Officer and President;
- Brent Rowe, Senior Vice President, Worldwide Sales;
- Margaret Sakai, Senior Vice President and Chief Financial Officer; and
- John McFarland, Senior Vice President, General Counsel and Secretary.

The Committee seeks to establish total compensation for executive officers that is fair, reasonable and competitive. The Committee evaluates our compensation packages to ensure that:

we maintain our ability to attract and retain superior executives in critical positions;

- our executives are incentivized and rewarded for aggressive corporate growth, achievement of long-term corporate objectives and individual performance that meets or exceeds our expectations without encouraging unnecessary risk-taking; and

- compensation provided to critical executives remains competitive relative to the compensation paid to similarly situated executives of companies in the semiconductor industry.

The Committee believes that the most effective executive compensation packages align executives interests with those of our unitholders by rewarding performance that exceeds specific annual, long-term and strategic goals that are intended to improve unitholder value. These objectives include the achievement of financial performance goals and progress on projects that our board of directors anticipates will lead to future growth, as discussed more fully below.

The information set forth below in this Compensation Discussion and Analysis describes the Committee s general philosophy and historical approach. However, given our financial challenges, in the beginning of 2009, the Committee determined to continue the arrangements from the prior year and did not perform any in depth analysis.

Until April 2009, Robert J. Krakauer served as our President, Chief Financial Officer, and director. In April 2009, we entered into a Senior Advisor Agreement with Mr. Krakauer pursuant to which he resigned from his employment and as a director but remains available to consult with us in a limited capacity until April 2010 to one year thereafter. Although Mr. Krakauer is no longer one our executive officers, his 2009 compensation is reported herein in accordance with SEC rules.

Role of Executive Officers in Compensation Decisions

For named executive officers other than our chief executive officer, we have historically sought and considered input from our chief executive officer in making determinations regarding executive compensation. Our chief executive officer annually reviews the performance of our other named executive officers. Our chief executive officer subsequently presents conclusions and recommendations regarding such officers, including proposed salary adjustments and incentive amounts, to the Committee. The Committee then takes this information into account when it makes final decisions regarding any adjustments or awards.

The review of performance by the Committee and our chief executive officer of other executive officers is both an objective and subjective assessment of each executive s contribution to our performance, leadership qualities, strengths and weaknesses and the individual s performance relative to goals set by the Committee or our chief executive officer, as applicable. The Committee and our chief executive officer do not systematically assign a weight to the factors, and may, in their discretion, consider or disregard any one factor which, in their sole discretion, is important to or irrelevant for a particular executive.

The Committee s annual determinations regarding executive compensation are subject to the terms of the respective service agreements between us and the named executive officers (as set forth in more detail below). In addition to the annual reviews, the Committee also typically considers compensation changes upon a named executive officer s promotion or other change in job responsibility. Neither our chief executive officer nor any of our other executives participates in deliberations relating to their own compensation.

Role of Compensation Consultants

The Committee has the authority to retain the services of third-party executive compensation specialists in connection with the establishment of cash and equity compensation and related policies.

Table of Contents

Historically, we have engaged compensation consultants to provide information and recommendations relating to executive pay and equity compensation or otherwise obtained third party compensation surveys. In light of the financial challenges we were facing, we did not use a compensation consultant, or review any formal industry data, in connection with setting 2009 executive compensation. The Committee has not retained a compensation consultant for 2010.

Timing of Compensation Decisions

At the end of each fiscal year, our chief executive officer will review the performance of the other executive officers and present his conclusions and recommendations to the Committee. At that time and throughout the year, the Committee will also evaluate the performance of our chief executive officer, which is measured in substantial part against our consolidated financial performance. In January of the following fiscal year, the Committee will then assess the overall functioning of our compensation plans against our goals, and determine whether any changes to the allocation of compensation elements, or the structure or level of any particular compensation element, are warranted.

In connection with this process, our Committee generally establishes the elements of its performance-based cash bonus plan for the upcoming year. With respect to newly hired employees, our practice is typically to approve equity grants at the first meeting of the Committee following such employee s hire date. We do not have any program, plan or practice to time equity award grants in coordination with the release of material non-public information. From time to time, additional equity awards may be granted to executive officers during the fiscal year. For example, in December 2009, our executive officers were granted restricted unit bonuses and nonstatutory options for common units, as further described below.

Elements of Compensation

In making decisions regarding the pay of the named executive officers, the Committee looks to set a total compensation package for each officer that will retain high-quality talent and motivate executives to achieve the goals set by our board of directors. Our 2009 compensation package was composed of the following elements:

- annual base salary;
- short-term cash incentives;
- long-term equity incentives;
- a benefits package that is generally available to all of our employees; and
- expatriate and other executive benefits.

Determination of Amount of Each Element of Compensation

General Background

Historically, the Committee has taken a variety of factors into consideration when determining changes to overall compensation levels and levels of individual annual compensation elements, as further described below. In the beginning of 2009, however, the Committee assessed the overall functioning of our compensation plans against our goals, and, due to our financial condition and impending reorganization proceedings, determined no changes from the prior year to the allocation of compensation elements, or the structure or level of any particular compensation element, were warranted for 2009. Subsequently, in connection with our emergence from our reorganization proceedings, the Committee made certain determinations with respect to executive compensation.

Accordingly, unless otherwise referenced in the context of our emergence from our reorganization proceedings and the Committee s compensation decisions made thereafter, the below disclosure is a general discussion of the manner in which the Committee has made decisions regarding compensation levels in prior years, and the underlying reasons for those decisions.

The Committee seeks to establish a total cash compensation package for our named executive officers that is competitive with the compensation reflected in compensation data for similarly-situated executives in the peer group reviewed by the Committee, subject to adjustments based on each executive s experience and performance. Historically, based on the recommendations provided by outside advisors, our review of industry specific survey data and the professional and market experience of our Committee members, we measured total cash compensation for our named executive officers against cash compensation paid to executives at similarly situated companies which we determined to be our select peer group. Base salaries for our named executive officers were benchmarked to median levels for companies in the select peer group, and were adjusted upward or downward for performance, and short-term cash incentives were put in place to provide for opportunities that may result in higher than median levels of cash compensation as compared to our select peer group if, and depending upon the extent to which, our performance and that of our named executive officers exceeded expectations and the goals established by the Committee for the year in question.

Historically, our select peer group has included other major Korean based semiconductor companies, including Fairchild Korea, Dongbu Hitek, ChipPac Korea and Hynix Semiconductor. In addition, we also reviewed compensation data from TowersPerrin Korea, an independent compensation consultant, which surveyed the companies listed below, to assess how compensation for our select peer group related to compensation paid to executives in a broader range of technology companies.

Accenture	CommVerge	Lam Research	NXP Semiconductors
Advanced Micro Devices	CSR	Lexmark International	Orange Business Services
Applied Materials	Dell	Microsoft	Sony Computer Entertainment
ASML	Electronic Arts	NCsoft	Tokyo Electron
Blizzard	GCT Semiconductor	Neowiz Games	Toshiba Group
Cisco Systems	Gravity	NHN Games	Verizon Business
CJ Internet	JCEntertainment	Npluto	
	KLA-Tencor		

The Committee makes annual determinations regarding cash incentive compensation based on our annual operating plan, which is adopted in the December preceding each fiscal year, including the expected performance of our business in the coming fiscal year. The Committee makes all equity compensation decisions for our officers based on existing compensation arrangements for other of our executives at the same level of

responsibility and based on our review of the select peer group with a view to maintaining internal consistency and parity.

Equity awards are not tied to base salary or cash incentive amounts and will constitute lesser or greater proportions of total compensation depending on the fair value of the awards. The Committee, relying on the professional and market experience of our Committee members, generally seeks to set equity awards at median levels of equity compensation at the select peer group companies. The Committee does not apply a formula or assign relative weight in making its determination. Instead, it makes a subjective determination after considering all information collectively.

The Committee may approve additional incentive payments or equity compensation grants from time to time during the year in its discretion.

Table of Contents

Base Salary

Base salary is the guaranteed element of an employee s annual cash compensation. Changes in base salary may be approved by the Committee for an executive if the median levels of base salary compensation for similarly-situated executives in our select peer group have changed, and may be further adjusted based upon the employee s long-term performance, skill set and the value of that skill. The Committee evaluates the performance of each named executive officer on an annual basis based on the accomplishment of performance objectives that were established at the beginning of the prior fiscal year as well as its own subjective evaluation of the officer s performance. In making its evaluation, the Committee makes a subjective qualitative assessment of the officer s contribution to our performance during the preceding year, including leadership, success in attaining particular goals of a division for which that officer has responsibility, our overall financial performance and such other criteria as the Committee may deem relevant, including input from our Chief Executive Officer. The Committee then makes a subjective decision regarding any changes in base salary based on these factors and the data from our select peer group. The Committee does not systematically assign weights to any of the factors it considers, and may, in its discretion, ignore any factors or deem any one factor to have greater importance for a particular executive officer.

Based upon our financial condition at the time, the Committee determined not to change compensation arrangements at the beginning of 2009. The current base salaries of the Company s named executive officers compare to the median of the Company s select peer group as follows: Mr. Park is at or slightly above, Mr. Hwang is slightly below, Ms. Sakai is slightly above, Mr. Rowe is slightly below and Mr. McFarland is generally in line. Our employees, including our executive officers, voluntarily accepted a 20% reduction in base salary from 2008 levels from January to June 2009, as part of austerity measures implemented to assist in our recovery. Mr. Park voluntarily accepted a 40% reduction in base salary from January to March 2009, and a 20% reduction from April to June 2009. In June 2009, our board of directors approved a one-time payment of 10% of base salary paid from April to June 2009 to all employees who voluntarily accepted pay reductions earlier in the year, which group included all of our named executive officers. This amount is reported as salary in the Summary Compensation Table below. We restored salaries to 2008 levels in July 2009. In December 2009, as a reward for the successful completion of our reorganization proceedings, our board of directors approved a one-time payment of 30% of then monthly base salary to all employees who voluntarily accepted pay reductions earlier in the year, which group included all of our named executive officers. The amount paid to named executive officers are reported as bonus in the Summary Compensation Table below. The Committee also granted additional special discretionary incentives to Mr. Hwang, Mr. Rowe, Ms. Sakai and Mr. McFarland, as described in more detail below.

Cash Incentives

Short-term cash incentives comprise a significant portion of the total target compensation package and are designed to reward executives for their contributions to meeting and exceeding our goals and to recognize and reward our executives in achieving these goals. Incentives are designed as a percentage of base salary and are awarded based on individual performance and our achievement of the annual, long-term and strategic quantitative goals set by our Committee.

Given our financial position at the beginning of 2009, we did not modify the annual targets for our cash incentive plans for 2009. As a result, our short-term cash incentive plan was effectively suspended for the year. In December 2009, our board of directors implemented a cash incentive plan effective as of January 1, 2010, which we call the Profit Sharing Plan. Each of our employees is eligible to participate in the Profit Sharing Plan, and our board of directors intends for the Profit Sharing Plan to incentivize our named executive officers, officers and employees to exceed expectations throughout our entire fiscal year. Our board of directors has empowered the Committee to administer the Profit Sharing Plan.

Table of Contents

Under the Profit Sharing Plan, the Committee will review our business plan in December of each year and determine an annual consolidated Adjusted EBITDA target, or the Base Target, for the upcoming fiscal year and set the targeted amount to be awarded to our named executive officers and employees, or the Profit Share, for meeting the Base Target and for achievement in excess of the Base Target.

The Base Target is calculated as a percentage of our forecasted gross annual revenue for the upcoming fiscal year. We determine our revenue forecast by looking at several factors, including existing orders from our customers, quarterly and annual forecasts from our customers, our product roadmap and how it corresponds with our projected customer needs, and the overall industry forecasts for the semiconductor market. The Committee s goal is to set a Base Target that is difficult but not unreasonable to achieve. To determine the percentage of gross annual revenue for purposes of setting the Base Target, the Committee, in consultation with our board of directors, first determines a range of Adjusted EBITDA growth and gross margin that is competitive based upon the select peer group and will ensure that we build unitholder value, then sets a percentage such that the forecasted Adjusted EBITDA growth and gross margin is within that range. See Prospectus Summary Summary Historical and Unaudited Pro Forma Consolidated Financial Data for a discussion of how we define and why we use Adjusted EBITDA.

Each named executive officer receives as a Profit Share a set percentage of their annual base salary once the Base Target is achieved. For 2010, our Chief Executive Officer is eligible to receive 40% of annual base salary, our President is eligible to receive 33.3% of annual base salary, our General Managers are eligible to receive 26.7% of annual base salary, our Senior Vice Presidents are eligible to receive 23.3% of annual base salary and our Vice Presidents are eligible to receive 20% of annual base salary. In the event we exceed the Base Target, we will pay to our executive officers and employees an additional Profit Share of 25% of our annual consolidated Adjusted EBITDA in excess of the Base Target.

We pay the Profit Share during the normal pay period in the January following the conclusion of each fiscal year for which the Profit Share is calculated, and the Profit Share is only payable to those executives who have been employed by us during the entire fiscal year for which the Profit Share is calculated and who are employed by us on the Profit Share payment date, provided that the Profit Share is payable pro rata to any named executive officers who begin their employment during the fiscal year for which the Profit Share is calculated.

The Committee retains the sole discretion to (i) authorize the payment of the Profit Share in December of the relevant fiscal year when the Committee believes the Base Target will be achieved, (ii) pay Profit Shares when we achieve slightly less than the Base Target, and (iii) make interim Profit Share payments during the fiscal year. In addition to the Profit Sharing Plan, the Committee retains the right to grant discretionary incentives to our named executive officers as a reward for extraordinary performance. For example, Mr. Hwang, Ms. Sakai and Mr. McFarland were paid a discretionary incentive in December 2009 in recognition of their role in our successful reorganization proceedings. These amounts were not based upon any numerical or formulaic factors, but rather were determined by the Committee based upon a subjective assessment of their respective individual contributions and are reported in the Summary Compensation Table in the column labeled Bonus. In addition, Messrs. Park and Rowe were each entitled to fixed bonuses pursuant to their employment agreements subject to continued employment. In the case of Mr. Park, he elected to forego $298,000 of the bonus otherwise payable to him in order for such amounts to be available for bonuses to other executives, including discretionary bonuses paid to Mr. Hwang, Ms. Sakai and Mr. McFarland.

For 2010, the implementation of the Profit Sharing Plan has been modified to provide our employees with an opportunity to share in our success earlier in the fiscal year than under the existing

Profit Sharing Plan. In addition to setting the Base Target, two interim targets for our first and second fiscal quarters have been set. We will make Profit Share payments in the first normal pay period following the conclusion of each of the first two fiscal quarters in which we reach the corresponding quarterly target. The total Profit Share payable for meeting the Base Target for 2010 is capped for each employee at his or her respective percentage of annual base salary, such that the amount of any Profit Share payable for 2010 performance after the end of 2010 will be offset by any portion of the Profit Share paid during 2010 for reaching either or both of the quarterly targets. In addition, for 2010, if we exceed the Base Target our employees will not be eligible to earn the additional Profit Share of 25% of our annual consolidated Adjusted EBITDA in excess of the Base Target. As a result, our executive officers and employees will only be entitled to receive a cash incentive equal to the percentage of their salary disclosed above. Under the Profit Sharing Plan, we recognized bonuses for our named executive officers in our consolidated statement of operations for the six months ended June 30, 2010 in an aggregate amount of $69,559, ranging individually from $9,372 to $22,442. The bonuses were paid in April and July 2010.

Equity Compensation

In addition to cash incentives, we offer equity incentives as a way to enhance the link between the creation of unitholder value and executive incentive compensation and to give our executives appropriate motivation and rewards for achieving increases in enterprise value. Under our 2009 Common Unit Plan, our board of directors granted options to acquire MagnaChip Semiconductor LLC common units and restricted unit bonus awards. Awards under our 2009 Common Unit Plan will be converted into options for common stock and restricted common stock of MagnaChip Semiconductor Corporation upon our corporate conversion. Such options vest in installments over three years following grant, with approximately one-third of the restricted unit awards vested at grant and the remainder vesting in two subsequent annual installments, as set forth in more detail below.

Under our 2010 Equity Incentive Plan, which will replace the 2009 Common Unit Plan following our corporation conversion, the Committee may grant participants stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares and units, and other stock-based and cash-based awards. In granting equity awards, the Committee may establish any conditions or restrictions it deems appropriate. Stock options and stock appreciation rights must have exercise prices at least equal to the fair market value of the stock at the time of their grant pursuant to the 2010 Equity Incentive Plan. Following the completion of the MagnaChip Corporation IPO, the fair market value of the stock at the time of grant will generally be the closing price of a share of stock as quoted on the national or regional securities exchange or quotation system constituting the primary market for the stock on the date any grant is made. Prior to the exercise of a stock option or stock appreciation or settlement of an award denominated in units, the holder has no rights as a stockholder with respect to the stock subject to the award, including voting rights and the right to receive dividends. Participants receiving restricted stock awards are stockholders and have both voting rights and the right to receive dividends, except that dividends paid on unvested shares may remain subject to forfeiture until vested. Award vesting ceases upon termination of employment, and vested options and stock appreciation rights remain exercisable only for a limited period following such termination.

The Committee considers granting additional equity compensation in the event of new employment, a promotion or change in job responsibility or a change in median levels of equity compensation for similarly-situated executives at companies in our select peer group or in its discretion to reward or incentivize individual officers. The option award levels vary among participants based on their job grade and position. The Committee generally seeks to award equity compensation at levels consistent with the median levels for executives at companies in our select peer group, and will also make subjective determinations regarding adjustments to award amounts in light of factors such as the available pool, individual performance and role of executives. For example, the Committee may adjust

the size of an award for an individual executive above the option award level for his or her position if the Committee determines that the executive has provided exceptional performance, or may increase the option award level for a position above the median level reflected in the select peer group if the position is considered by the Committee to be more critical to our long-term success. The Committee will generally maintain substantially equivalent award levels for executives at equivalent job grades. Stock option awards are not tied to base salary or cash incentive amounts.

As a result of our reorganization proceedings, all previously outstanding common and preferred units and options held by our named executive officers were cancelled. In December 2009, we granted new options to our executives with the option award amounts generally determined based upon the median levels of our select peer group. Thirty-four percent of the common units subject to the options will vest and become exercisable on the first anniversary of grant date, with 8 or 9% of the common units subject to the options vesting on completion of each three-month period thereafter through December 2012. In December 2009, in recognition of services provided in guiding us through our reorganization proceedings, our board of directors also granted each of our current named executive officers a restricted unit bonus in addition to an option. The amount of the restricted unit bonuses were not based upon any numerical or formulaic factors, nor based upon any comparative peer group, data or the number of options granted, but rather were determined based upon our board of directors subjective assessment of individual contributions to the successful completion of the reorganization proceedings. We granted restricted unit bonuses in order to provide our executives with an equity incentive with a built-in gain equal to the value of the units as of the date of grant while still incentivizing them to contribute toward increasing our enterprise value. See Grant of Plan-Based Awards below for information regarding the number and value of units granted to each named executive officer. Thirty-four percent of each restricted unit bonus vested upon grant, with the remaining portion vesting in equal installments on the first and second anniversary of the grant date.

Upon the recommendation of our board of directors or chief executive officer, or otherwise, the Committee may in the future consider granting additional performance-based equity incentives.

Perquisites and Other Benefits

We provide the named executive officers with perquisites and other personal benefits, including expatriate benefits, that the Committee believes are reasonable and consistent with our overall compensation program to better enable us to attract and retain superior employees for key positions. Generally perquisites are determined based upon what the Committee considers to be the most customary perquisites offered by the select peer group and are not based upon a median cost for specific perquisites or for the perquisites in aggregate. The Committee determines the level and types of expatriate benefits for the executive officers based on local market surveys taken by our human resources group. These surveys are not limited to our select peer group, but include a broad range of non-Korea based companies with significant operations in Korea. Attributed costs of the personal benefits for the named executive officers are as set forth in the Summary Compensation Table below.

Mr. Park, Ms. Sakai and Mr. McFarland were expatriates during all or part of 2009 and received expatriate benefits commensurate with market practice in Korea. These perquisites, which were determined on an individual basis, included housing allowances, relocation allowances, insurance premiums, reimbursement for the use of a car, home leave flights, living expenses, tax equalization payments and tax advisory services, each as we deemed appropriate.

In addition, pursuant to the Employee Retirement Benefit Security Act, certain executive officers resident in Korea with one or more years of service are entitled to severance benefits upon the termination of their employment for any reason. For purposes of this section, we call this benefit statutory severance. The base statutory severance is approximately one month of base salary per year of service. Mr. Hwang, Ms. Sakai and Mr. McFarland accrue statutory severance.

Table of Contents

Summary Compensation Table

The following table sets forth certain information concerning the compensation earned during the years ended December 31, 2007, 2008 and 2009, of our named executive officers:

Name and Principal Position	Year	Salary ($)(1)	Bonus ($)	Unit Awards ($)(2)	Option Awards ($)(2)	Change in Pension Value and Non-qualified Deferred Compen-sation Earnings ($)(3)	All Other Compen-sation ($)	Total ($)
Sang Park	2009	979,611(4)	11,262	1,769,600	488,070		314,785(5)	3,563,328
Chairman and Chief Executive Officer	2008	442,128					351,897(6)	794,025
	2007	450,148	309,330				244,468(7)	1,003,946
Tae Young Hwang,	2009	189,748	106,544	663,600	305,044	119,541	10,884(8)	1,395,361
Chief Operating Officer and President	2008	212,307				99,095	20,293(9)	331,695
	2007	236,830	119,339			19,735	11,476(10)	387,380
Brent Rowe	2009	398,554(11)	70,500	442,400	183,026		12,231(12)	1,106,711
Senior Vice President, Worldwide Sales	2008	226,308	176,000(13)				25,673(14)	427,981
	2007	220,846	176,000(15)				142,191(16)	539,037
Margaret Sakai	2009	238,347	46,549	265,440	73,211	12,143	163,668(17)	799,358
Senior Vice President, Chief Financial Officer	2008	250,934				37,683	180,025(18)	468,642
	2007	250,082	21,569			24,086	167,791(19)	463,528
John McFarland,	2009	172,229	44,764	265,440	48,807	14,369	99,615(20)	645,224
Senior Vice President, General Counsel and	2008	191,147				21,492	79,790(21)	292,429
Secretary	2007	201,839	75,930		23,195	22,802	97,334(22)	421,100
Robert J. Krakauer,	2009	467,265					176,554(23)	643,819
Former President and Chief Financial Officer	2008	468,426					820,236(24)	1,288,662
	2007	375,123	270,903				707,831(25)	1,353,857

Note: Amounts set forth in the above table that were originally paid in Korean won from January 1 to October 25, 2009 and during the fiscal years ended December 31, 2008 and 2007 have been converted into U.S. dollars using average exchange rates during the respective periods. After October 25, 2009, a monthly average exchange rate was used.

Footnotes:

(1) Includes one-time payment of 10% of base salary paid from April to June 2009 to all employees that voluntarily accepted pay reductions earlier in the year, including $22,204, $4,897, $6,000 and $6,415 paid to Mr. Park, Mr. Hwang, Mr. Rowe and Ms. Sakai, respectively.

(2) Represents grant date fair value with respect to the fiscal year determined in accordance with FASB ASC 718. See Note 4 Summary of Significant Accounting Policies Unit-Based Compensation, and Note 19 Equity Incentive Plans, to the MagnaChip Semiconductor LLC audited consolidated financial statements for the two months ended December 31, 2009, the ten months ended October 25, 2009 and the years ended 2008 and 2007.

(3) Consists of statutory severance accrued during the two months ended December 31, 2009, ten months ended October 25, 2009 and the years ended December 31, 2008 and 2007, as applicable. See the section subtitled Compensation Discussion and Analysis for a description of the statutory severance benefit.

(4)

Includes a fixed one-time bonus payment of $602,631 made in December 2009 pursuant to Mr. Park s Amended and Restated Service Agreement. Mr. Park elected to forego $298,000 of the bonus payable pursuant to his service agreement in order for such amounts to be available for bonuses to other executives.

(5) Includes the following personal benefits paid to Mr. Park: (a) $125,073, which is the annual aggregate monthly pro rata amount of prepaid housing expenses for Mr. Park s housing lease; (b) $28,386 for insurance premiums; (c) $48,319 for other personal benefits (including reimbursement of the use of a car, home leave flights, living expenses and personal tax advisory expenses); and (d) $89,252 of reimbursement for the difference between the actual tax Mr. Park already paid and the hypothetical tax he had to pay for the fiscal year 2008; and (e) $23,755 for reimbursement of Korean tax.

(6) Includes the following personal benefits paid to Mr. Park: (a) $70,838, which is the aggregate monthly pro rata amount of prepaid housing expenses for Mr. Park s housing lease for six months, $82,828, which is the total monthly rental payments for seven months rent for Mr. Park s housing, and $8,192, which is the imputed benefit to Mr. Park from a refundable deposit held by the lessor of Mr. Park s housing during the lease term; (b) $27,290 for insurance premiums;

131

[Table of Contents](#)

(c) $35,787 for other personal benefits (including reimbursement of the use of a car, home leave flights and personal tax advisory expenses); (d) $78,913 of reimbursement for the difference between the actual tax Mr. Park already paid and the hypothetical tax he had to pay for the fiscal year 2006 and 2007; (e) $24,962 for Mr. Park s living expenses; and (f) $23,087 for reimbursement of Korean tax and employee fringe benefits.

(7) Includes the following personal benefits paid to Mr. Park: (a) $154,798 which is the annual aggregate monthly pro rata amount of prepaid housing expenses for Mr. Park s housing lease; (b) $42,684 for insurance premiums (c) $31,750 for other personal benefits (including personal tax advisory expenses); (d) $1,188 of reimbursement in relation to a Korean tax payment in 2006; and (e) $14,048 for reimbursement of Korean tax, the employee contribution portion of the Korean national health insurance program and employee fringe benefits.

(8) Includes the following personal benefits paid to Mr. Hwang: (a) $7,832 for reimbursement of the use of a car; and (b) $3,052 for insurance premiums.

(9) Includes the following personal benefits paid to Mr. Hwang: (a) $9,541 for reimbursement of the use of a car; (b) $9,070 for insurance premiums; and (c) $1,682 for employee fringe benefits.

(10) Includes the following personal benefits paid to Mr. Hwang: (a) $11,056 for reimbursement of the use of a car; and (b) $420 for employee fringe benefits.

(11) Includes a $176,000 fixed non-discretionary payment under Mr. Rowe s offer letter (as supplemented), pursuant to which in 2007 Mr. Rowe elected to receive a $528,000 advance on his first three years of potential annual bonus payments at a rate of 80% of base pay. Effective as of April 2009, the right to receive the bonus became fixed and was no longer discretionary.

(12) Includes the following personal benefits paid to Mr. Rowe: (a) $1,597 for reimbursement of the use of a car; and (b) $10,634 for insurance premiums.

(13) Under Mr. Rowe s offer letter (as supplemented), in 2007, Mr. Rowe elected to receive a $528,000 advance on his first three years of potential annual bonus payments at a rate of 80% of base pay. One-third of this amount ($176,000) was earned in 2008.

(14) Includes the following personal benefits paid to Mr. Rowe: (a) $1,983 for reimbursement of the use of a car; (b) $13,027 for insurance premiums; and (c) $10,663 for personal tax advisory expenses.

(15) Under Mr. Rowe s offer letter (as supplemented), in 2007, Mr. Rowe elected to receive a $528,000 advance on his first three years of potential annual bonus payments at a rate of 80% of base pay. One-third of this amount ($176,000) was earned in 2007.

(16) Includes the following personal benefits paid to Mr. Rowe: (a) $121,826 of Mr. Rowe s relocation allowance when he returned to the U.S. from an expatriate assignment in Korea; (b) $3,000 for contributions to a pension plan; (c) $4,967 for personal tax advisory expenses; (d) $12,130 for insurance premiums; and (e) $268 for reimbursement of the use of a car.

(17) Includes the following personal benefits paid to Ms. Sakai: (a) $25,590, which is the total monthly rental payments for four months rent for MS. Sakai s housing, and $32,650, which is the imputed benefit to Ms. Sakai from a refundable deposit held by the lessor of Ms. Sakai s housing during the lease term; (b) $33,735 for reimbursement of tuition expenses for Ms. Sakai s children; (c) $21,352 for Ms. Sakai s home leave flights; (d) $28,238 for insurance premiums; (e) $8,568 for other personal benefits (including reimbursement of the use of a car, personal tax advisory expenses, and communication expenses); and (f) $13,535 for reimbursement of Korean tax.

(18) Includes the following personal benefits paid to Ms. Sakai: (a) $61,438, which is the imputed benefit to Ms. Sakai from a refundable deposit held by the lessor of Ms. Sakai s housing during the lease term; (b) $38,046 for reimbursement of tuition expenses for Ms. Sakai s children; (c) $23,420 for Ms. Sakai s home leave flights; (d) $27,211 for insurance premiums; (e) $21,460 for other personal benefits (including reimbursement of the use of a car, personal tax advisory expenses, and communication expenses); and (f) $8,450 for reimbursement of Korean tax and employee fringe benefits.

(19) Includes the following personal benefits paid to Ms. Sakai: (a) $72,661, which is the imputed benefit to Ms. Sakai from a refundable deposit held by the lessor of Ms. Sakai s housing during the lease term; (b) $30,649 for reimbursement of tuition expenses for Ms. Sakai s children; (c) $18,709 for Ms. Sakai s home leave flights; (d) $28,140 for insurance premiums; (e) $13,673 for other personal benefits (including reimbursement of the use of a car, personal tax advisory expenses, and communication expenses); and (f) $3,959 for reimbursement of the employee contribution portion of the Korean national health insurance program and employee fringe benefits.

(20) Includes the following personal benefits paid to Mr. McFarland: (a) $23,351 for reimbursement of tuition expenses for Mr. McFarland s child; (b) $19,978 of reimbursement for the difference between the actual tax Mr. McFarland already paid and the hypothetical tax he had to pay for the fiscal year 2008; (c) $20,227 for insurance premiums; (d) $1,089 for other personal benefits (including reimbursement of the use of a car and personal tax advisory expenses); and (e) $34,970 for reimbursement of Korean tax.

(21) Includes the following personal benefits paid to Mr. McFarland: (a) $21,334 for reimbursement of tuition expenses for Mr. McFarland s child; (b) $13,382 of reimbursement for the difference between the actual tax Mr. McFarland already paid and the hypothetical tax he had to pay for the fiscal year 2007; (c) $19,736 for insurance premiums paid; (d) $12,296 for other personal benefits (including reimbursement of the use of a car and personal tax advisory expenses); and (e) $13,042 for reimbursement of Korean tax and employee fringe benefits.

(22) Includes the following personal benefits paid to Mr. McFarland: (a) $35,837 for reimbursement of tuition expenses for Mr. McFarland s child; (b) $20,292 of reimbursement for the difference between the actual tax Mr. McFarland already paid and the hypothetical tax he had to pay for the fiscal year 2006; (c) $23,534 for insurance premiums; (d) $5,050 for other

132

personal benefits (including reimbursement of the use of a car and personal tax advisory expenses); and (e) $12,621 for reimbursement of Korean tax, the employee contribution portion of the Korean national health insurance program and employee fringe benefits.

(23) Includes the following personal benefits paid to Mr. Krakauer: (a) $145,460 for Mr. Krakauer s housing expenses; (b) $24,329 for insurance premiums; and (c) $6,765 for other personal benefits (including reimbursement of the use of a car and living expenses).

(24) Includes the following personal benefits paid to Mr. Krakauer: (a) $225,940 for Mr. Krakauer s housing expenses; (b) $97,827 for reimbursement of living expenses; (c) $29,246 for reimbursement of tuition expenses for Mr. Krakauer s children; (d) $23,860 for Mr. Krakauer s home leave flights; (e) $22,842 for insurance premiums; (f) $22,404 for reimbursement of the use of two cars; (g) $49,789 for personal tax advisory expenses; (h) $248,302 of reimbursement for the difference between the actual tax Mr. Krakauer already paid and the hypothetical tax he had to pay for the fiscal year 2006, 2007 and 2008; (i) $29,604 for repatriation allowance paid to Mr. Krakauer; and (j) $70,422 for reimbursement of Korean tax and employee fringe benefits.

(25) Includes the following personal benefits paid to Mr. Krakauer: (a) $208,962, which is the annual aggregate monthly pro rata amount of prepaid housing expenses for Mr. Krakauer s housing lease; (b) $30,643 for reimbursement of living expenses; (c) $71,683 for reimbursement of tuition expenses for Mr. Krakauer s children; (d) $20,242 for Mr. Krakauer s home leave flights; (e) $43,823 for insurance premiums; (f) $63,791 of reimbursement for all commission and closing costs for the sale of Mr. Krakauer s house in the United States; (g) $12,581 for personal tax advisory expenses; (h) $21,748 for reimbursement of the use of two cars; (i) $147,490 of reimbursement for the difference between the actual tax Mr. Krakauer already paid and the hypothetical tax he had to pay for the fiscal year 2006; and (j) $86,868 for reimbursement of Korean tax, the employee contribution portion of the Korean national health insurance program and employee fringe benefits.

Grants of Plan-Based Awards

The following table sets forth certain information with respect to unit and option awards and other plan-based awards granted during the year ended December 31, 2009 to our named executive officers:

Name	Grant Date	All Other Unit Awards: Number of Units (#)(1)	All Other Option Awards: Number of Securities Underlying Options (#)(1)	Exercise or Base Price of Option Awards ($/unit)(2)	Grant Date Fair Value of Unit and Option Awards ($)(3)
Sang Park	12/08/2009	2,240,000			$ 1,769,600
	12/08/2009		2,240,000	1.16	$ 488,070
Tae Young Hwang	12/08/2009	840,000			$ 663,600
	12/08/2009		1,400,000	1.16	$ 305,044
Brent Rowe	12/08/2009	560,000			$ 442,400
	12/08/2009		840,000	1.16	$ 183,026
Margaret Sakai	12/08/2009	336,000			$ 265,440
	12/08/2009		336,000	1.16	$ 73,211
John McFarland	12/08/2009	336,000			$ 265,440
	12/08/2009		224,000	1.16	$ 48,807

(1) The vesting schedule applicable to each award is set forth below in the section entitled Outstanding Equity Awards at Fiscal Year End 2009.

(2) Exceeds the per unit fair market value of our common units on the grant date ($0.79), as determined by our board of directors based on various factors.

(3) Represents ASC 718 grant date fair value. See Management s Discussion and Analysis of Financial Condition and Results of Operations Accounting for Unit-based Compensation for a description of how we valued our units as a private company.

Table of Contents

Outstanding Equity Awards at Fiscal Year End 2009(1)

	Option Awards				Unit Awards	
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable(2)	Option Exercise Price ($)	Option Expiration Date	Number of Units That Have Not Vested (#)(3)	Market Value of Units That Have Not Vested ($)(4)
Sang Park		2,240,000	1.16	12/8/2019	1,478,400	1,167,936
Tae Young Hwang		1,400,000	1.16	12/8/2019	554,400	437,976
Brent Rowe		840,000	1.16	12/8/2019	369,600	291,984
Margaret Sakai		336,000	1.16	12/8/2019	221,760	175,190
John McFarland		224,000	1.16	12/8/2019	221,760	175,190

(1) All of our outstanding common and preferred units and outstanding options as of November 9, 2009 were terminated as of November 9, 2009 pursuant to our reorganization proceedings.

(2) An installment of 34% of the common units subject to the options will vest and become exercisable on December 8, 2010, an additional 9% of the options vest on the completion of the next period of three months, an additional 8% of the options vest upon the completion of each of the next three-month periods, an additional 9% of the options vest upon the completion of the next quarter, and an additional 8% of the options vest upon the completion of each of the next three quarters.

(3) The restrictions on the common units lapse on December 8, 2010 as to 33% of the total amount of restricted common units originally awarded and on December 8, 2011 as to 33% of the total amount of restricted common units originally awarded.

(4) During fiscal year 2009, there was no established public trading market for our outstanding common equity. The reported value represents the product of multiplying the number of unvested restricted units by the value of our common units of $0.79 as of December 31, 2009, the last day of our fiscal year. See Management s Discussion and Analysis of Financial Condition and Results of Operations Accounting for Unit-based Compensation for a description of how we valued our common units while as a private company.

Option Exercises and Unit Vested at Fiscal Year End 2009(1)

Name	Number of Units Acquired on Vesting (#)(2)	Value Realized on Vesting ($)(3)
Sang Park	761,600	601,664
Tae Young Hwang	285,600	225,624
Brent Rowe	190,400	150,416
John McFarland	114,240	90,250
Margaret Sakai	114,240	90,250

(1) All of our outstanding common and preferred units and outstanding options as of November 9, 2009 were terminated as of November 9, 2009 pursuant to our reorganization proceedings.

(2) The restrictions on the awards lapsed on December 8, 2009 as to 34% of the total number of restricted common units originally awarded.

(3) During fiscal year 2009, there was no established public trading market for our outstanding common equity. The reported value represents the product of multiplying the number of vested units by the value of our units of $0.79 as of the date of vesting.

MagnaChip Semiconductor LLC 2009 Common Unit Plan

All of our outstanding common and preferred units and options and related plans were terminated as of November 9, 2009 pursuant to our reorganization proceedings. Following our emergence from our reorganization proceedings, in December 2009, our board of directors adopted, and our equityholders approved, the MagnaChip Semiconductor LLC 2009 Common Unit Plan, which we refer to as the 2009 Plan. The 2009 Plan provides for the grant of nonstatutory options, restricted unit bonus and purchase right awards, and deferred unit awards to employees and consultants of our company and our subsidiaries and to members of our board of directors. However, only options and restricted unit bonus awards have been granted under the 2009 Plan. Subject to adjustment in the event of certain changes in capital structure, the maximum aggregate number of MagnaChip Semiconductor LLC common units that are available for grant under the 2009 Plan is 30,000,000. Units subject to awards that expire, are forfeited or otherwise terminate will again be available for grant under the 2009 Plan.

In connection with our corporate conversion, MagnaChip Corporation will assume the rights and obligations of MagnaChip Semiconductor LLC under the 2009 Plan and convert MagnaChip Semiconductor LLC common unit options and restricted common units outstanding under the 2009 Plan into options to acquire a number of shares of our common stock and shares of restricted common stock at a ratio to be determined on substantially equivalent terms and conditions. As of August 31, 2010, there were outstanding under the 2009 Plan options to purchase 15,859,000 common units, at a weighted average exercise price of $0.79 per unit. The 2009 Plan will terminate immediately following our corporate conversion, and no additional options or other equity awards may be granted under the 2009 Plan following its termination. However, options granted under the 2009 Plan prior to its termination will remain outstanding until they are either exercised or expire.

The 2009 Plan is administered by the Committee. Subject to the provisions of the 2009 Plan, the Committee determines in its discretion the persons to whom and the times at which awards are granted, the sizes of such awards, and all of their terms and conditions. All awards are evidenced by a written agreement between us and the holder of the award. The Committee has the authority to construe and interpret the terms of the 2009 Plan and awards granted under it.

In the event of a change in control of our company, the vesting of all outstanding awards held by participants whose employment has not previously terminated will accelerate in full. In addition, the Committee has the authority to require that outstanding awards be assumed or replaced with substantially equivalent awards by the successor corporation or to cancel the outstanding awards in exchange for a payment in cash or other property equal to the fair market value of restricted units or the excess, if any, of the fair market value of the units subject to an option over the exercise price per unit of such option.

2010 Equity Incentive Plan

Our 2010 Equity Incentive Plan, or the 2010 Plan, was approved by our board of directors in March 2010 and will be effective upon our corporate conversion, subject to its approval by our equityholders, which is expected prior to the closing of the MagnaChip Corporation IPO.

A number of shares of our common stock equal to the total number of shares of common stock (as adjusted by the conversion ratio in the corporate conversion) remaining available for grant under the 2009 Plan upon its termination immediately following the corporate conversion will be initially authorized and reserved for issuance under the 2010 Plan. As of June 30, 2010, 6,887,000 common units were reserved for future issuance under the 2009 Plan. This reserve will automatically increase on January 1, 2011 and each subsequent anniversary through 2020, by an amount equal to the

smaller of 2% of the number of shares of common stock issued and outstanding on the immediately preceding December 31 or an amount determined by our board of directors. The number of shares authorized for issuance under the 2010 Plan will also be increased from time to time by up to that number of shares of common stock (as adjusted by the conversion ratio in corporate conversion) remaining subject to options and restricted stock awards outstanding under the 2009 Plan at the time of its termination immediately following the corporate conversion that expire or terminate or are forfeited for any reason after the effective date of the 2010 Plan. Appropriate adjustments will be made in the number of authorized shares and other numerical limits in the 2010 Plan and in outstanding awards to prevent dilution or enlargement of participants rights in the event of a stock split or other change in our capital structure. Shares subject to awards granted under our 2010 Plan which expire, are repurchased, or are cancelled or forfeited will again become available for issuance under the 2010 Plan. The shares available will not be reduced by awards settled in cash. Shares withheld to satisfy tax withholding obligations will not again become available for grant. The gross number of shares issued upon the exercise of stock appreciation rights or options exercised by means of a net exercise or by tender of previously owned shares will be deducted from the shares available under the 2010 Plan.

Awards may be granted under the 2010 Plan to our employees, including officers, directors, or consultants or those of any present or future parent or subsidiary corporation or other affiliated entity. While we may grant incentive stock options only to employees, we may grant nonstatutory stock options, stock appreciation rights, restricted stock purchase rights or bonuses, restricted stock units, performance shares, performance units and cash-based awards or other stock-based awards to any eligible participant.

The 2010 Plan is administered by the Committee. Subject to the provisions of the 2010 Plan, the Committee determines in its discretion the persons to whom and the times at which awards are granted, the sizes of such awards, and all of their terms and conditions. All awards are evidenced by a written agreement between us and the holder of the award. The Committee has the authority to construe and interpret the terms of the 2010 Plan and awards granted under it.

In the event of a change in control as described in the 2010 Plan, the acquiring or successor entity may assume or continue all or any awards outstanding under the 2010 Plan or substitute substantially equivalent awards. Any awards which are not assumed or continued in connection with a change in control or are not exercised or settled prior to the change in control will terminate effective as of the time of the change in control. The Committee may provide for the acceleration of vesting of any or all outstanding awards upon such terms and to such extent as it determines, except that the vesting of all awards held by members of our board of directors who are not employees will automatically be accelerated in full. The 2010 Plan also authorizes the Committee, in its discretion and without the consent of any participant, to cancel each or any outstanding award denominated in shares upon a change in control in exchange for a payment to the participant with respect to each share subject to the cancelled award of an amount equal to the excess of the consideration to be paid per share of common stock in the change in control transaction over the exercise price per share, if any, under the award.

2010 Employee Stock Purchase Plan

Our 2010 Employee Stock Purchase Plan, or the Purchase Plan, was approved by our board of directors in March 2010 and, subject to its approval by our equityholders, will become effective upon the closing of the MagnaChip Corporation IPO.

A number of shares of our common stock equal to 2% of the number of shares of common stock estimated to be outstanding immediately after completion of the MagnaChip Corporation IPO, including the exercise of the underwriters option to purchase additional shares will be initially authorized and

reserved for sale under the Purchase Plan. In addition, the Purchase Plan provides for an automatic annual increase in the number of shares available for issuance under the plan on January 1 of each year beginning in 2011 and continuing through and including January 1, 2020 equal to the lesser of (i) 1% of our then issued and outstanding shares of common stock on the immediately preceding December 31, (ii) a number of shares of our common stock equal to 2% of the number of shares of common stock estimated to be outstanding immediately after completion of the MagnaChip Corporation IPO, including the exercise of the underwriters option to purchase additional shares or (iii) a number of shares as our board may determine. Appropriate adjustments will be made in the number of authorized shares and in outstanding purchase rights to prevent dilution or enlargement of participants rights in the event of a stock split or other change in our capital structure. Shares subject to purchase rights which expire or are canceled will again become available for issuance under the Purchase Plan.

Our employees and employees of any parent or subsidiary corporation designated by the Committee are eligible to participate in the Purchase Plan if they are customarily employed by us for more than 20 hours per week and more than five months in any calendar year. However, an employee may not be granted a right to purchase stock under the Purchase Plan if: (i) the employee immediately after such grant would own stock possessing 5% or more of the total combined voting power or value of all classes of our capital stock or of any parent or subsidiary corporation, or (ii) the employee s rights to purchase stock under all of our employee stock purchase plans would accrue at a rate that exceeds $25,000 in value for each calendar year of participation in such plans.

The Purchase Plan is implemented through a series of sequential offering periods, generally three months in duration beginning on the first trading days of February, May, August and November each year. However, the Committee may establish an offering period to commence on the effective date of the Purchase Plan that will end on a date determined by the Committee. The Committee is authorized to establish additional or alternative concurrent, sequential or overlapping offering periods and offering periods having a different duration or different starting or ending dates, provided that no offering period may have a duration exceeding 27 months.

Amounts accumulated for each participant, generally through payroll deductions, are credited toward the purchase of shares of our common stock at the end of each offering period at a price generally equal to 95% of the fair market value of our common stock on the purchase date. Prior to commencement of an offering period, the Committee is authorized to change the purchase price discount for that offering period, but the purchase price may not be less than 85% of the lower of the fair market value of our common stock at the beginning of the offering period or on the purchase date.

No participant may purchase under the Purchase Plan in any calendar year shares having a value of more than $25,000 measured by the fair market value per share of our common stock on the first day of the applicable offering period. Prior to the beginning of any offering period, the Committee may alter the maximum number of shares that may be purchased by any participant during the offering period or specify a maximum aggregate number of shares that may be purchased by all participants in the offering period. If insufficient shares remain available under the plan to permit all participants to purchase the number of shares to which they would otherwise be entitled, the Committee will make a pro rata allocation of the available shares. Any amounts withheld from participants compensation in excess of the amounts used to purchase shares will be refunded, without interest.

In the event of a change in control, an acquiring or successor corporation may assume our rights and obligations under the Purchase Plan. If the acquiring or successor corporation does not assume such rights and obligations, then the purchase date of the offering periods then in progress will be accelerated to a date prior to the change in control as specified by the Committee, but the number of shares subject to outstanding purchase rights shall not be adjusted.

Agreements with Executives and Potential Payments Upon Termination or Change in Control

We are obligated to make certain payments to our named executive officers upon termination or a change in control as further described below.

Sang Park. We are party to an Amended and Restated Services Agreement, dated as of May 8, 2008, with Mr. Park pursuant to which he serves as our Chairman and Chief Executive Officer. Under the agreement, Mr. Park was to receive an initial base salary of $450,000 and a one-time performance bonus payment of $900,000. Mr. Park is also entitled to an annual incentive award of 100% of his annual salary based upon the achievement of performance goals, provided that the actual bonus paid may be higher or lower dependent on over- or under-achievement of his performance goals, as determined by the Committee. Mr. Park is entitled to customary employee benefits and certain expatriate, repatriation and international service benefits, including relocation benefits, tax equalization benefits, the cost of housing accommodations and expenses, transportation benefits and repatriation benefits. Pursuant to the agreement Mr. Park was granted options to purchase restricted common units but they were subsequently terminated in connection with our reorganization proceedings. The restated service agreement also contains customary non-competition and non-solicitation covenants lasting two and three years, respectively, from the date of termination of employment and confidentiality covenants of unlimited duration.

If Mr. Park s employment is terminated without Cause or if he resigns for good reason, Mr. Park is entitled to receive (i) payment of all salary and benefits accrued up to the date of termination, (ii) payment of his then-current base salary for twelve months, (iii) the annual incentive award to which Mr. Park would have been entitled for the year in which his employment terminates, (iv) twelve months accelerated vesting on outstanding equity awards and a twelve-month post-termination equity award exercise period, and (v) continued participation for Mr. Park and his eligible dependents in our benefit plans for twelve months, including certain international service benefits.

If such termination occurs within nine months of a change in control, Mr. Park is entitled to receive (i) payment of all salary and benefits accrued and unpaid up to the date of termination, (ii) payment of his then-current base salary for twenty-four months, (iii) the annual incentive award to which Mr. Park would have been entitled for the year in which his employment terminates, (iv) two years accelerated vesting on outstanding equity awards, other than awards granted pursuant to the 2009 Plan, which accelerate in full, (v) a twelve-month post-termination equity award exercise period, and (vi) continued participation for Mr. Park and his eligible dependents in our benefit plans for two years, including certain international service benefits.

The severance described above payable to Mr. Park upon his termination without Cause or in connection with a change in control shall be reduced to the extent that we pay any statutory severance payments to Mr. Park pursuant to the Korean Commercial Code or any other statute.

As used in the agreement, the term Cause means the termination of Mr. Park s employment because of (i) a failure by Mr. Park to substantially perform his customary duties (other than such failure resulting from incapacity due to physical or mental illness); (ii) Mr. Park s gross negligence, intentional misconduct or material fraud in the performance of Mr. Park s employment; (iii) Mr. Park s conviction of, or plea of nolo contendre to, a felony or to a crime involving fraud or dishonesty; (iv) a judicial determination that Mr. Park committed fraud or dishonesty against any natural person, firm, partnership, limited liability company, association, corporation, company, trust, business trust, governmental authority or other entity; or (v) Mr. Park s material violation of the agreement or of one or more of the material policies applicable to his employment. Resignation for good reason means a resignation upon any of the following events that remains uncured for 30 days after Mr. Park delivers a demand to us: (i) a salary reduction other than a reduction of less than 10% applied to our other officers, (ii) material reduction in benefits, (iii) failure to provide housing, (iv) nature or status of

Table of Contents

Mr. Park s authorities, duties or responsibilities are materially and adversely altered, (v) removal from our board of directors without cause, or (vi) Mr. Park is not reappointed as Chief Executive Officer following our initial public offering.

In the event we terminate Mr. Park s employment due to Disability, Mr. Park shall be entitled to (i) payment of his Salary and accrued vacation up to and including the date of termination, (ii) payment of any unpaid expense reimbursements, (iii) the prorated amount of any cash incentive to which Mr. Park would have been entitled, and (iv) other benefits due to Mr. Park through his termination date. As used in the agreement, the term Disability means that the we determine that due to physical or mental illness or incapacity, whether total or partial, Mr. Park is substantially unable to perform his duties for a period of 180 consecutive days or shorter periods aggregating 180 days during any period of 365 consecutive days.

In the event of Mr. Park s death while employed by us, Mr. Park s estate or named beneficiary shall be entitled to (i) payment of Mr. Park s salary and accrued vacation up to and including the date of termination, (ii) payment of any unpaid expense reimbursements, (iii) the prorated amount of any cash incentive to which Mr. Park would have been entitled, and (iv) other benefits due to Mr. Park through his termination date.

Tae Young Hwang. We entered into an Entrustment Agreement with Mr. Hwang, effective as of October 1, 2004, under which he serves as our Chief Operating Officer and President, with an initial base salary of 220 million Korean won per year and with a target annual incentive bonus to be determined by management based on performance. Mr. Hwang is entitled to customary employee benefits and expatriate benefits. The agreement also contains customary non-competition covenants lasting one year from the date of termination of employment and confidentiality covenants of unlimited duration.

If Mr. Hwang s employment is terminated for any reason, he is entitled to statutory severance payments pursuant to the Korean Commercial Code.

Brent Rowe. We entered into an Offer Letter with Mr. Rowe, dated as of March 7, 2006, pursuant to which Mr. Rowe serves as our Senior Vice President, Worldwide Sales, with an initial base salary of $220,000 per year, a sign on bonus of $50,000 and with a target annual incentive bonus opportunity of 80% of his base salary. Mr. Rowe is entitled to customary employee benefits. Pursuant to the Offer Letter, Mr. Rowe received an initial grant of options to purchase our common units, but the grant was subsequently terminated in connection with our reorganization proceedings.

If Mr. Rowe s employment is terminated without cause, he is entitled to a severance payment equal to six months salary.

Margaret Sakai. We entered into an Offer Letter with Ms. Sakai, dated as of September 5, 2006, pursuant to which Ms. Sakai served as our Senior Vice President, Finance, with an initial base salary of $250,000 per year and with a target annual incentive bonus opportunity of 50% of her base salary. Ms. Sakai s title was changed to Senior Vice President and Chief Financial officer in 2009. Ms. Sakai is entitled to customary employee benefits and expatriate benefits. Pursuant to her Offer Letter, Ms. Sakai received an initial grant of options to purchase our common units, but the grant was subsequently terminated in connection with our reorganization proceedings.

If Ms. Sakai s employment is terminated by us without cause, Ms. Sakai is entitled to receive payment of all salary and benefits accrued and unpaid up to the date of termination, continued payment of her salary for six months at the rate in effect on the date of termination, payment of a prorated portion of the annual incentive bonus for the year in which termination occurs and paid

benefits for Ms. Sakai and her dependents for six months. The severance payable to Ms. Sakai under her Offer Letter will be reduced to the extent we make any statutory severance payments to Ms. Sakai pursuant to the Korean Commercial Code or any other statute.

John McFarland. We are party to a Service Agreement, dated as of April 1, 2006, with Mr. McFarland pursuant to which he serves as our Senior Vice President, General Counsel and Secretary. Under the agreement, Mr. McFarland was eligible to receive an initial base salary of 175 million Korean won per year, with a target annual incentive bonus opportunity of 50% of his base salary. Mr. McFarland is entitled to customary employee benefits and certain expatriate, repatriation and international service benefits. Mr. McFarland received an initial grant of options to purchase our common units, but the grant was subsequently terminated in connection with our reorganization proceedings. The agreement also contains customary non-competition and non-solicitation covenants lasting one and two years, respectively, from the date of termination of employment and confidentiality covenants of unlimited duration.

Pursuant to the agreement, if Mr. McFarland s employment is terminated for any reason other than Disability, death or Cause, he shall be entitled to (i) payment of all salary and benefits accrued up to the date of termination, (ii) a severance payment, consisting of the continuation of his then current salary for a period of six months, (iii) six months of paid benefits for Mr. McFarland and his eligible dependents and (iv) the prorated amount of any cash incentive to which Mr. McFarland would have been entitled. The severance payable to Mr. McFarland under his agreement will be reduced to the extent we make any statutory severance payments to Mr. McFarland pursuant to the Korean Commercial Code or any other statute.

In the event we terminate Mr. McFarland s employment due to Disability, Mr. McFarland shall be entitled to (i) payment of his then current salary up to and including the date of termination, (ii) the dollar value of all accrued and unused vacation benefits based upon Mr. McFarland s most recent level of salary, (iii) any cash incentive amount actually earned but not previously paid to Mr. McFarland, (iv) payment of any unpaid expense reimbursements, and (v) the prorated amount of any cash incentive to which Mr. McFarland would have been entitled. As used in the agreement, the term Disability means that we reasonably determine that due to physical or mental illness or incapacity, whether total or partial, Mr. McFarland is substantially unable to perform his duties for a period of 180 consecutive days or shorter periods aggregating 180 days during any period of 365 consecutive days.

In the event of Mr. McFarland s death while employed by us, Mr. McFarland s estate or named beneficiary shall be entitled to (i) payment of Mr. McFarland s then current salary up to and including the date of termination, (ii) the dollar value of all accrued and unused vacation benefits based upon Mr. McFarland s then current salary, (iii) any cash incentive amount actually earned but not previously paid to Mr. McFarland, (iv) payment of any unpaid expense reimbursements, and (v) the prorated amount of any cash incentive to which Mr. McFarland would have been entitled.

If Mr. McFarland s employment is terminated for Cause, he will be entitled to receive payment of all salary and benefits and unreimbursed expenses accrued up to the date of termination and will not be entitled to any other compensation. As used in the agreement, the term Cause has substantially the same definition as that in Mr. Park s agreement.

Robert J. Krakauer. Until April 10, 2009, Robert J. Krakauer served as our President, Chief Financial Officer and director. In April 2009, we entered into a Senior Advisor Agreement with Mr. Krakauer. Under this agreement, Mr. Krakauer resigned from employment and as a director with us but remains available to consult with us on a limited capacity until April 10, 2010. Pursuant to the Senior Advisor Agreement, Mr. Krakauer is entitled to payments in the aggregate amount of $375,000, payable over a one-year period, plus the re-payment of amounts of reduced salary for the first three

months of 2009, in addition to the continuation of certain benefits and perquisites, including health insurance benefits, and the continuation of auto lease payments for a certain number of months. In addition, we waived any right we had to repurchase any restricted units held by Mr. Krakauer at the time of his resignation. All common units held by Mr. Krakauer were terminated in connection with our reorganization proceedings.

Potential Payments upon Termination or Change in Control.

Termination. Our named executive officers are eligible to receive certain payments and benefits in connection with certain service termination events pursuant to the terms of our employment agreements with them, as further described under the section entitled Agreements with Executives and Potential Payments Upon Termination or Change in Control. The terms cause and resignation for good reason used below have the meanings given to them in the applicable agreements with us.

Change in Control. Mr. Park is entitled to receive certain payments and benefits in connection with a change in control of our company pursuant to our employment agreement with him, as further described under the section entitled Agreements with Executives and Potential Payments Upon Termination or Change in Control. In addition, in the event of a change in control of our company, the vesting of all outstanding awards issued under the 2009 Plan held by participants whose employment has not previously terminated will accelerate in full. In addition, the Committee has the authority to require that outstanding awards be assumed or replaced with substantially equivalent awards by the successor corporation or to cancel the outstanding awards in exchange for a payment in cash or other property equal to the fair market value of restricted units or the excess, if any, of the fair market value of the units subject to an option over the exercise price per unit of such option. For purposes of the foregoing, a change in control is generally defined as the acquisition by a person or entity of more than 51% of the combined voting power of our then outstanding voting securities or a sale or transfer of all or substantially all of our consolidated assets to a person or entity that is not our affiliate. The MagnaChip Corporation IPO will not constitute a change of control for the purposes of these provisions.

The following table presents our estimate of the dollar value of the payments and benefits payable to our named executive officers upon the occurrence of the following events, assuming that each such event occurred on December 31, 2009. The disclosure in the following table does not include:

any accrued benefits that were earned and payable as of December 31, 2009, including any short-term cash incentive amounts earned by, or any discretionary bonus amounts payable to, the executive officer for 2009 performance; or

payments and benefits to the extent they are provided generally to all salaried employees and do not discriminate in scope, terms or operation in favor of the named executive officers.

Name	Event	Cash Severance Payment ($)(1)	Continuation of Benefits ($)(2)	Value of Equity Award Acceleration ($)(3)	Total ($)
Sang Park	(a)(4)	450,000	314,785(5)	583,968	1,348,753
	(b)(4)	900,000	629,570(6)	1,167,936	2,697,506
	(c)			1,167,936	1,167,936
Tae Young Hwang	(c)			437,976	437,976
Brent Rowe	(a)	110,000			110,000
	(c)			291,984	291,984
Margaret Sakai	(a)	130,000	81,834(7)		211,834
	(c)			175,190	175,190
John McFarland	(a)	94,210	49,808(8)		144,018
	(c)			175,190	175,190

(a) Termination without cause in absence of change in control
(b) Termination without cause within 9 months following a change in control
(c) Change in control
(1) Represents cash severance payments payable to our named executive officers pursuant to our employment agreements with them, prior to giving effect to the terms thereof relating to the Employee Retirement Benefit Security Act of Korea. Other than Mr. Rowe, who is entitled to a lump sum cash severance payment, cash severance payments are paid monthly in accordance with our regular payroll procedures.

Pursuant to the Employee Retirement Benefit Security Act, Mr. Hwang, Ms. Sakai and Mr. McFarland are entitled to certain statutory severance benefits from us upon the termination of their employment with us for any reason. See Management Compensation Discussion and Analysis Perquisites and Other Benefits for additional information. For these executives, the amounts reflected in this column would be reduced to the extent we are obligated to make these statutory severance payments.

(2) Calculated assuming the continuation of benefits for the applicable period at the same dollar value of 2009 benefits.
(3) Reflects the aggregate value of the accelerated vesting of the named executive officer s unvested options and restricted common units, as applicable.

Because all of our options outstanding as of December 31, 2009 have an exercise price greater than the fair market value of our common units of $0.79 as of December 31, 2009, no additional value is represented by the acceleration of outstanding unvested common units subject to such awards and therefore, the value of accelerated vesting of unvested options is $0.00.

Because all of our restricted common units issued under the 2009 Plan outstanding as of December 31, 2009 were issued without any required monetary payment, the amounts were calculated by multiplying (i) the number of outstanding restricted common units subject to award vesting on December 31, 2009 by (ii) the fair market value of our common units of $0.79 as of December 31, 2009.

(4) Reflected benefits are also payable in connection with Mr. Park s resignation for good reason. See Management Agreements with Executives and Potential Payments Upon Termination or Change in Control Sang Park.
(5) Represents the aggregate value of the continuation of health insurance benefits for Mr. Park and his eligible dependents for twelve months following the date of termination. Mr. Park is also entitled to tax equalization benefits, tax preparation services, the reimbursement of costs associated with one home leave flight and, for a period of twelve months post-termination, international health insurance benefits, paid housing and the use of a car and a driver.
(6) Represents the aggregate value of the continuation of health insurance benefits for Mr. Park and his eligible dependents for twenty-four months following the date of termination. Mr. Park is also entitled to tax equalization benefits, tax preparation services, the reimbursement of costs associated with two home leave flights and, for a period of twenty-four months post-termination, international health insurance benefits, paid housing and the use of a car and a driver.
(7) Represents the aggregate value of the continuation of health insurance benefits for Ms. Sakai and her eligible dependents for six months following the date of termination. Ms. Sakai is also entitled to tax equalization benefits, tax preparation services, reimbursement of costs associated with one home leave flight and, for a period of six months post-termination, paid housing, the use of a car and a driver and child tuition benefits.
(8) Represents the aggregate value of continuation of health insurance benefits for Mr. McFarland and his eligible dependents for six months following the date of termination. Mr. McFarland is also entitled to tax equalization, tax preparation services and, for a period of six months post-termination, child tuition benefits.

Pension Benefits for the Fiscal Year Ended December 31, 2009

Pursuant to the Employee Retirement Benefit Security Act, certain executive officers resident in Korea with one or more years of service are entitled to severance benefits upon the termination of their employment for any reason. The base statutory severance accrues at the rate of approximately one month of base salary per year of service and is calculated on a monthly basis based upon the officer s salary for the prior three-month period. Accordingly, if the named executive officers in the following table had retired on the last day of our fiscal year ended December 31, 2009, they would have been entitled to the statutory severance payments described below. Assuming no change in the applicable law, each of these executives will continue to accrue additional statutory severance benefits at the rate described above until his or her service with us terminates.

Name	Plan Name	Number of Years of Credited Service (#)	Present Value of Accumulated Benefit ($)	Payments During the Last Fiscal Year
Tae Young Hwang	Statutory Severance with Multiplier for Partial Period	14(1)	686,058	
Margaret Sakai	Statutory Severance	3	68,155	
John McFarland	Statutory Severance	5	81,129	

Footnote:

(1) Mr. Hwang accrued severance for his fourteen years of service at MagnaChip and its predecessor corporation. Although the minimum legal severance accrual is one month of base salary per year of service, Mr. Hwang was eligible for accrual of a multiple of two to three months of base salary per year of service during approximately the first ten of his fourteen years of service, or $389,867 in aggregate.

Nonqualified Deferred Compensation

We do not maintain any nonqualified deferred compensation plans.

Director Compensation for the Fiscal Year Ended December 31, 2009

Name	Fees Earned or Paid in Cash ($)	Option Awards ($)(1)	All Other Compensation ($)	Total ($)
Jerry M. Baker(2)(3)	50,000		25,751(4)	75,751
Armando Geday(2)(3)	50,000			50,000
Michael Elkins(5)				
Randal Klein(5)				
Steven Tan(5)				
Nader Tavakoli(5)				

Note: Amounts set forth in the above table that were originally paid in Korean won have been converted into U.S. dollars at the exchange rate as of each payment date during the two-month period ended December 31, 2009 and the ten-month period ended October 25, 2009.

Footnotes:

(1) All of our common and preferred units and outstanding options, including grants made to our directors outstanding prior to the effective date of our Chapter 11 reorganization of November 9, 2009, were terminated as of such date pursuant to our reorganization proceedings.

(2) Resigned as a director effective November 9, 2009.

(3) Consists of annual retainer of $50,000 paid to non-employee directors prior to our reorganization proceedings.
(4) Represents payments for insurance premiums.
(5) Each of our non-employee directors appointed to our board of directors subsequent to the effective date of our Chapter 11 reorganization did not receive any compensation in 2009.

Further Information Regarding Director Compensation Table

In March 2010, we issued to our director Nader Tavakoli a restricted unit bonus for 150,000 common units pursuant to the 2009 Plan for service as a director to date. In March 2010, we also adopted a new director compensation policy. Under the new policy, each of our non-employee directors is entitled to receive an annual fee of $50,000. In addition, the chairman of our audit committee is entitled to an additional fee of $5,000. We expect to issue each non-employee director an option to purchase 200,000 common units of MagnaChip Semiconductor LLC, which after giving effect to the corporate conversion, will be automatically converted into shares of our common stock, which shall vest on the same terms as option grants to our other grantees. In March 2010, pursuant to this policy, we issued options to purchase 200,000 common units to each of our directors R. Douglas Norby, Gidu Shroff and Nader Tavakoli pursuant to the 2009 Plan at an exercise price of $2.12 per unit.

Compensation Committee Interlocks and Insider Participation

The members of the Compensation Committee will be appointed prior to the completion of our proposed MagnaChip Corporation IPO. We do not anticipate that any of the members of the Compensation Committee will have been an officer or employee of our company during the last fiscal year. During 2009, decisions regarding executive officer compensation were made by our full board of directors. Mr. Sang Park, Chairman of our board of directors and our Chief Executive Officer, participated in deliberations of our board of directors regarding the determination of compensation of our executive officers other than himself. None of our executive officers currently serves, or in the past has served, as a member of the board of directors or the compensation committee of any entity that has one or more executive officers serving on our board of directors.

Table of Contents

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information regarding the beneficial ownership of the outstanding common units of MagnaChip Semiconductor LLC as of August 31, 2010 by: (1) each person or entity known to us to beneficially own more than 5% of any class of our outstanding securities; (2) each member of our board of directors; (3) each of our named executive officers; and (4) all of the members of our board of directors and executive officers, as a group. As of August 31, 2010, our outstanding securities consisted of 307,233,996 common units, options to purchase 15,859,000 common units and warrants to purchase 15,000,000 common units.

The amounts and percentages of equity interests beneficially owned are reported on the basis of SEC regulations governing the determination of beneficial ownership of securities. Under SEC rules, a person is deemed to be a beneficial owner of a security if that person has or shares voting power, which includes the power to vote or to direct the voting of such security, or investment power, which includes the power to dispose of or to direct the disposition of such security. A person is also deemed to be a beneficial owner of any securities of which that person has the right to acquire beneficial ownership within 60 days. Under these rules, more than one person may be deemed to be a beneficial owner of the same securities and a person may be deemed to be a beneficial owner of securities as to which he or she has no economic interest.

Except as indicated by footnote, the persons named in the table below have sole voting and investment power with respect to all common units shown as beneficially owned by them. Unless otherwise indicated, the address of each person listed in the table below is c/o MagnaChip Semiconductor Ltd., 1 Hyang jeong-dong, Hungduk-gu, Cheongju-si, 361-725, Korea.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership(1)	Percent of Class(1)
Principal Unitholders		
Funds managed by Avenue Capital Management II, L.P(2)	218,927,386	70.2%
Funds and accounts managed by Southpaw Asset Management LP(3)	23,555,229	7.7%
Tennenbaum Multi-Strategy Fund SPV (Cayman) Ltd.(4)	20,710,045	6.7%
Directors and Executive Officers		
Sang Park(5)	2,240,000	*
Tae Young Hwang(6)	840,000	*
Brent Rowe(7)	560,000	*
Margaret Sakai(8)	336,000	*
John McFarland(9)	336,000	*
Michael Elkins(10)		
Randal Klein(10)		
Steven Tan(10)		
Nader Tavakoli(11)	150,000	*
R. Douglas Norby		
Gidu Shroff		
Robert Krakauer(12)		
Directors and executive officers as a group (13 persons)(13)	4,910,000	1.6%

* Less than one percent.

(1) Includes any outstanding common units held and, to the extent applicable, units issuable upon the exercise or conversion of any securities that are exercisable or convertible within 60 days of August 31, 2010.

(2) The following entities and person are collectively referred to in this table as the Avenue Capital Group : (i) Avenue Investments, L.P. (Avenue Investments), (ii) Avenue International Master,

L.P. (Avenue International Master), (iii) Avenue International, Ltd. (Avenue International), the sole limited partner of Avenue International Master, (iv) Avenue International Master GenPar, Ltd. (Avenue International GenPar), the general partner of Avenue International Master, (v) Avenue Partners, LLC (Avenue Partners), the general partner of Avenue Investments and the sole shareholder of Avenue International GenPar, (vi) Avenue-CDP Global Opportunities Fund, L.P. (CDP Global), (vii) Avenue Global Opportunities Fund GenPar, LLC (CDP Global GenPar), the general partner of CDP Global, (viii) Avenue Special Situations Fund IV, L.P. (Avenue Fund IV), (ix) Avenue Capital Partners IV, LLC (Avenue Capital IV), the general partner of Avenue Fund IV, (x) GL Partners IV, LLC (GL IV), the managing member of Avenue Capital IV, (xi) Avenue Special Situations Fund V, L.P. (Avenue Fund V), (xii) Avenue Capital Partners V, LLC (Avenue Capital V), the general partner of Avenue Fund V, (xiii) GL Partners V, LLC (GL V), the managing member of Avenue Capital V, (xiv) Avenue Capital Management II, L.P. (Avenue Capital II), the investment advisor to Avenue Investments, Avenue International Master, CDP Global, Avenue Fund IV and Avenue Fund V (collectively, the Avenue Funds), (xv) Avenue Capital Management II GenPar, LLC (GenPar), the general partner of Avenue Capital II, and (xvi) Marc Lasry, the managing member of GenPar, GL V, GL IV, CDP Global GenPar and Avenue Partners and a director of Avenue International GenPar.

The Avenue Capital Group beneficially owns 218,927,386 common units, including the 4,447,680 common units the Avenue Capital Group may receive through the exercise of outstanding warrants.

The Avenue Funds have the sole power to vote and dispose of the common units held by them. Avenue International, Avenue International GenPar, Avenue Partners, CDP Global GenPar, Avenue Capital IV, GL IV, Avenue Capital V, GL V, Avenue Capital II, GenPar and Marc Lasry have the shared power to vote and dispose of the common units held by the Avenue Funds, all of whom disclaim any beneficial ownership except to the extent of their respective pecuniary interest. The address for all of the Avenue Funds is 399 Park Avenue, 6th Floor, New York, NY 10022.

Avenue Fund V beneficially owns 88,938,119 common units, or 28.7%, which represents 86,756,399 common units and 2,181,720 common units issuable upon the exercise of warrants held by Avenue Fund V. The securities owned by Avenue Fund V may also be deemed to be beneficially owned by Avenue Capital V, its general partner; GL V, the managing member of Avenue Capital V; Avenue Capital II, its investment adviser; GenPar, the general partner of Avenue Capital II; and Mr. Lasry, the managing member of GenPar and GL V; all of whom disclaim any beneficial ownership except to the extent of their respective pecuniary interest. For further information regarding Avenue Fund V, please see above.

Avenue Fund IV beneficially owns 70,458,255 common units, or 22.8%, which represents 69,186,975 common units and 1,271,280 common units issuable upon the exercise of warrants held by Avenue Fund IV. The securities owned by Avenue Fund IV may also be deemed to be beneficially owned by Avenue Capital IV, its general partner; GL IV, the managing member of Avenue Capital IV; Avenue Capital II, its investment adviser; GenPar, the general partner of Avenue Capital II; and Mr. Lasry, the managing member of GenPar and GL IV; all of whom disclaim any beneficial ownership except to the extent of their respective pecuniary interest. For further information regarding Avenue Fund IV, please see above.

Avenue International Master beneficially owns 35,568,286 common units, or 11.6%, which represents 35,004,706 common units and 563,580 common units issuable upon the exercise of warrants held by Avenue International Master. The securities owned by Avenue International Master may also be deemed to be beneficially owned by Avenue International, its sole limited partner; Avenue International GenPar, its general partner; Avenue Partners, the sole shareholder of Avenue International GenPar; Avenue Capital II, its investment adviser; GenPar, the general partner of Avenue Capital II; and Mr. Lasry, the managing member of GenPar and Avenue

Partners and a director of Avenue International GenPar; all of whom disclaim any beneficial ownership except to the extent of their respective pecuniary interest. For further information regarding Avenue International Master, please see above.

CDP Global beneficially owns 12,104,679 common units, or 3.9%, which represents 11,862,159 common units and 242,520 common units issuable upon the exercise of warrants held by CDP Global. The securities owned by CDP Global may also be deemed to be beneficially owned by CDP Global GenPar, its general partner; Avenue Capital II, its investment adviser; GenPar, the general partner of Avenue Capital II; and Mr. Lasry, the managing member of GenPar and CDP Global GenPar; all of whom disclaim any beneficial ownership except to the extent of their respective pecuniary interest. For further information regarding CDP Global, please see above.

Avenue Investments beneficially owns 11,858,047 common units, or 3.9%, which represents 11,669,467 common units and 188,580 common units issuable upon the exercise of warrants held by Avenue Investments. The securities owned by Avenue Investments may also be deemed to be beneficially owned by Avenue Partners, its general partner; Avenue Capital II, its investment adviser; GenPar, the general partner of Avenue Capital II; and Mr. Lasry, the managing member of GenPar and Avenue Partners; all of whom disclaim any beneficial ownership except to the extent of their respective pecuniary interest. For further information regarding Avenue Investments, please see above.

(3) Represents 23,555,229 common units that may be deemed to be beneficially owned by Southpaw Asset Management LP (Southpaw Management) as it serves as the discretionary investment manager for several funds and accounts (the Managed Accounts). The securities beneficially owned by Southpaw Management may be deemed beneficially owned by Southpaw Holdings LLC (Southpaw Holdings), which is the general partner of Southpaw Management, and by each of Kevin Wyman and Howard Golden, who are principals of Southpaw Holdings.

Southpaw Credit Opportunity Master Fund, L.P (Southpaw Master Fund) beneficially owns 22,885,269 common units. The securities owned by Southpaw Master Fund may also be deemed beneficially owned by Southpaw Management, in its capacity as the investment manager of Southpaw Master Fund, and Southpaw GP LLC (Southpaw GP), in its capacity as general partner of Southpaw Master Fund. The securities deemed beneficially owned by Southpaw Management may also be deemed beneficially owned by Southpaw Holdings, which is the general partner of Southpaw Management, and by each of Kevin Wyman and Howard Golden, who are principals of Southpaw Holdings and Southpaw GP.

The business address of each of Southpaw Master Fund, Southpaw Management, Southpaw GP, Southpaw Holdings, and Messrs. Wyman and Golden is 2 Greenwich Office Park, 1st floor, Greenwich, CT 06831. For the avoidance of doubt, none of Southpaw Management, Southpaw GP, Southpaw Holdings, or Messrs. Wyman and Golden hold common units for their personal accounts, and each reports beneficial ownership of the securities held by Southpaw Master Fund and the Managed Accounts due solely to the fact that such persons have the ability to vote and/or dispose of the securities held by Southpaw Master Fund and the Managed Accounts.

(4) Represents 20,710,045 common units held by Tennenbaum Multi-Strategy Fund SPV (Cayman) Ltd. (Tennenbaum Cayman SPV). Tennenbaum Capital Partners, LLC is the investment manager of Tennenbaum Cayman SPV, and may be deemed to be the beneficial owner of the securities held by such principal unitholder. Tennenbaum Capital Partners, LLC, however, disclaims beneficial ownership of these securities, except to the extent of its pecuniary interest therein. The address for Tennenbaum Cayman SPV is 2951 28th Street, Suite 1000, Santa Monica, CA 90405.

(5) Represents 2,240,000 common units, of which 1,478,400 are subject to a right of repurchase by MagnaChip.

(6) Represents 840,000 common units, of which 554,400 are subject to a right of repurchase by MagnaChip.
(7) Represents 560,000 common units, of which 369,600 are subject to a right of repurchase by MagnaChip.
(8) Represents 336,000 common units, of which 221,760 are subject to a right of repurchase by MagnaChip.
(9) Represents 336,000 common units, of which 221,760 are subject to a right of repurchase by MagnaChip.
(10) The address for Messrs. Elkins, Klein and Tan is 399 Park Avenue, 6th Floor, New York, NY 10022.
(11) Represents 150,000 common units.
(12) Mr. Krakauer resigned as our President, Chief Financial Officer and director on April 10, 2009.
(13) Represents 4,910,000 common units, of which 3,141,600 are subject to a right of repurchase by MagnaChip.

Table of Contents

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Code of Business Conduct and Ethics

Under our Code of Business Conduct and Ethics, all conflicts of interest and related party transactions involving our directors or executive officers must be reviewed and approved in writing by our full board of directors. In the approval process, the approving authority will review all aspects of the conflict of interest or related party transaction, including but not limited to: (i) compliance with laws, rules and regulations, (ii) the adverse affect on our business and results of operations, (iii) the adverse affect on our relationships with third parties such as customers, vendors and potential investors, (iv) the benefit to the director, officer or employee at issue, and (v) the creation of morale problems among other employees. Our board of directors will only approve those related party transactions that, in light of known circumstances, are in, or are not inconsistent with, our best interests.

Senior Debt

Avenue Investments, L.P. (one of the Funds affiliated with Avenue Capital Management II, L.P., which is, together with other affiliates, our majority unitholder, and an affiliate of our directors Messrs. Elkins, Klein and Tan) was a lender under our senior secured credit facility. On November 6, 2009, in connection with the reorganization proceedings, our senior secured credit agreement was amended and restated to, among other things, reduce the outstanding principal amount from $95 million to $61.8 million, pursuant to which we repaid $33.2 million in principal, $22.6 million of which was paid to Avenue Investments, L.P. As of December 31, 2009, the outstanding indebtedness under our senior secured credit facility was $61.8 million, of which $42.1 million was held by Avenue Investments, L.P. As of December 31, 2009, the interest rate for all borrowings under the senior secured credit facility was 6 month LIBOR plus 12% per annum and we accrued $1.2 million in interest under the senior secured credit facility as of December 31, 2009, of which $0.8 million was accrued for Avenue Investments, L.P. Other Funds affiliated with Avenue Capital Management II, L.P. participate in the loan from Avenue Investments, L.P. under our senior secured credit agreement pursuant to a master participation agreement. Our senior secured credit agreement was repaid in April 2010 with a portion of the proceeds from our $250 million senior notes offering, $42.8 million of which was paid to Avenue Investments, L.P., including $0.9 million of accrued interest. Avenue purchased $35 million in principal amount our $250 million senior notes. See Description of Notes for additional information.

Issuance of Common Units

In connection with our plan of reorganization, Avenue received an aggregate of 8,348,338 common units and warrants to purchase up to an aggregate of 4,447,680 common units in exchange for the release of claims relating to outstanding indebtedness in an aggregate principal amount of approximately $322.6 million. Avenue also acquired 176,131,368 common units at $0.14 per unit pursuant to a $35 million rights offering that we completed in November 2009 and an additional 30,000,000 common units for providing a backstop service in agreeing to purchase any unsubscribed units in the offering.

In connection with our plan of reorganization, Tennenbaum Multi-Strategy Fund SPV (Cayman) Ltd., or Tennenbaum, received 1,169,965 common units in exchange for the release of claims relating to approximately the principal amount of $38.8 million of outstanding indebtedness. Tennenbaum also acquired 19,540,080 common units in the rights offering.

In connection with our plan of reorganization, Southpaw Credit Opportunity Master Fund LP, or Southpaw Master Fund, received 1,272,237 common units in exchange for the release of their claims relating to approximately the principal amount of $42.9 million of outstanding indebtedness. Southpaw

Master Fund also acquired 21,613,032 common units in the rights offering. Wilshire Institutional Master Fund SPC Wilshire Southpaw Opportunity Segregated Portfolio, or Wilshire Institutional, received 32,189 common units in exchange for the release of their claims relating to approximately the principal amount of $1.1 million of outstanding indebtedness. Wilshire Institutional also acquired 546,840 common units in the rights offering. Lastly, GPC 76, LLC received 90,931 common units in exchange for the release of their claims relating to approximately the principal amount of $3.1 million of outstanding indebtedness.

Operating Agreement

Pursuant to the terms of our Operating Agreement, so long as Avenue and its affiliates own at least 25% of our outstanding common units, Avenue has the right to appoint a majority of the directors on our board of directors. In addition, pursuant to the terms of our Operating Agreement, Avenue has the right to effect a drag-along sale in which Avenue, in its sole discretion, may require all of our members to sell such number of their respective common units on a pro-rata basis as Avenue desires to any person to whom Avenue sells its units so long as such person is not affiliated with Avenue and such sale is made upon the same terms and conditions as apply to Avenue.

The foregoing summary of certain provisions of the Operating Agreement does not purport to be complete and is subject to, and is qualified in its entirety by reference to, all of the provisions of the Operating Agreement, which is listed as an exhibit to the registration statement of which this prospectus forms a part. See Where You Can Find More Information.

Equity Registration Rights Agreement

On November 9, 2009, we entered into a registration rights agreement, which we refer to in this prospectus as the equity registration rights agreement, with the holders of MagnaChip Semiconductor LLC s common units issued in our reorganization proceedings, including Avenue, where we granted them registration rights with respect to our common units. See Description of Our Common Units Equity Registration Rights.

Warrant Agreement

On November 9, 2009, we entered into a warrant agreement with American Stock Transfer & Trust Company, LLC whereby we issued warrants to purchase an aggregate of 15,000,000 common units pursuant to the reorganization proceedings to certain former creditors, which included Avenue.

Senior Advisor Agreement

In April 2009, we entered into a Senior Advisor Agreement with Mr. Krakauer, who formerly served as our President, Chief Financial Officer and director, pursuant to which he remained available to consult with us through April 10, 2010. Under this agreement, Mr. Krakauer was entitled to payments in the aggregate amount of $375,000 payable over a one-year period, plus the repayment of amounts of reduced salary for the first three months of 2009, in addition to the continuation of certain benefits and perquisites, including health insurance benefits, and the continuation of auto lease payments for a certain number of months. In addition, we waived any right we had to repurchase any restricted units held by Mr. Krakauer at the time of his resignation. All common units held by Mr. Krakauer were terminated in connection with our reorganization proceedings.

Notes Registration Rights Agreement

In connection with the original issuance and sale of the senior notes, we entered into an exchange and registration rights agreement, which we refer to as the notes registration rights

agreement, dated as of April 9, 2010 with the initial purchasers of the senior notes, including Avenue, pursuant to which we agreed to file with the SEC a registration statement covering the exchange by us of the notes for the senior notes and a shelf registration statement covering resales of senior notes by certain holders, including Avenue. The notes registration rights agreement obligates us to file with the SEC an exchange offer registration statement on an appropriate form under the Securities Act with respect to an offer to the holders of the senior notes to exchange their senior notes for the notes. We have filed the registration statement of which this prospectus forms a part, and are conducting the exchange offer, in compliance with the notes registration rights agreement.

If for any of the reasons specified in the notes registration rights agreement we become obligated to file with the SEC a shelf registration statement covering resales of senior notes by the holders, we will be required to use our commercially reasonable efforts to file the shelf registration statement on or prior to 30 days after such filing obligation arises and to cause the shelf registration statement to be declared effective by the SEC on or prior to 90 days after the obligation arises. A holder of senior notes that sells its senior notes pursuant to the shelf registration statement generally will be required to be named as a selling securityholder in the related prospectus and to deliver a prospectus to purchasers, will be subject to certain of the civil liability provisions under the Securities Act in connection with such sales and will be bound by the provisions of the notes registration rights agreement that are applicable to such holder (including certain indemnification and contribution obligations).

Pursuant to the notes registration rights agreement, we will be required to pay special interest if a registration default exists. A registration default will exist if:

- we fail to file any of the registration statements required by the notes registration rights agreement on or before the date specified for such filing;
- any of such registration statements is not declared effective by the SEC on or prior to the date specified for such effectiveness;
- we fail to consummate the exchange offer within 30 business days of the commencement of the exchange offer with respect to the exchange offer registration statement; or
- the shelf registration statement or the exchange offer registration statement is declared effective but thereafter ceases to be effective or usable in connection with resales of transfer restricted securities during the periods specified in the notes registration rights agreement.

With respect to the first 90-day period immediately following the occurrence of the first registration default, special interest will be paid in an amount equal to 0.25% per annum of the principal amount of transfer restricted securities outstanding. The amount of the special interest will increase by an additional 0.25% per annum with respect to each subsequent 90-day period until all registration defaults have been cured, up to a maximum amount of special interest for all registration defaults of 1.0% per annum of the principal amount of the transfer restricted securities outstanding. Upon the cure of all registration defaults, the accrual of special interest will cease.

We have agreed to pay all expenses incident to the exchange offer (other than commissions and concessions of any broker-dealer) and to indemnify the holders of the senior notes against certain liabilities, including liabilities under the Securities Act.

We have agreed to pay all expenses incident to our performance of or compliance with the notes registration rights agreement (other than commissions and concessions of any broker-dealer). Generally, the notes registration rights agreement requires that we indemnify holders of the senior notes who resell their senior notes under a registration statement filed by us against certain liabilities, including liabilities arising under the Securities Act. In addition, each holder whose senior notes are included in a registration statement may be required to indemnify us for the resale of their senior notes

Table of Contents

against certain liabilities related to the information provided by such holder with respect to such registration statement. The notes registration rights agreement also provides for the indemnitors to reimburse the indemnified persons for legal or other expenses reasonably incurred by such persons in connection with investigating or defending claims for which they are entitled to indemnification under the agreement.

The foregoing summary of certain provisions of the notes registration rights agreement does not purport to be complete and is subject to, and is qualified in its entirety by reference to, all of the provisions of the notes registration rights agreement, which is listed as an exhibit to the registration statement of which this prospectus forms a part. See Where You Can Find More Information.

Table of Contents

DESCRIPTION OF OUR COMMON UNITS

The following description of our common units and provisions of our limited liability company operating agreement are summaries and are qualified by reference to the limited liability company operating agreement, a copy of which has been filed with the SEC as an exhibit to our registration statement of which this prospectus forms a part.

General

Our limited liability company operating agreement, as amended and restated, authorizes one class of limited liability company interests in us, i.e. common units. We are authorized to issue 375,000,000 common units. As of June 30, 2010, MagnaChip Semiconductor LLC had issued and outstanding 307,233,996 common units held by 134 holders of record.

As of August 31, 2010, MagnaChip Semiconductor LLC also had outstanding options to purchase 15,859,000 common units at a weighted average exercise price of $0.79 per unit and warrants to purchase 15,000,000 common units at an exercise price of $1.97 per unit. MagnaChip Semiconductor LLC has reserved an aggregate of 30,000,000 common units for issuance to current and future directors, employees and consultants of MagnaChip Semiconductor LLC and its subsidiaries pursuant to the MagnaChip Semiconductor LLC 2009 Common Unit Plan. Of this amount, at August 31, 2010, 15,859,000 common units were subject to outstanding options, 6,907,000 were available for future issuance and no common units have been purchased in connection with the exercise of previously issued options. MagnaChip Semiconductor LLC issued warrants to purchase an aggregate of 15,000,000 common units pursuant to the reorganization proceedings, which are subject to a warrant agreement dated November 9, 2009 between us and American Stock Transfer & Trust Company, LLC, our warrant agent. At August 31, 2010, 15,000,000 common units were subject to outstanding warrants and no common units had been purchased in connection with the exercise of previously issued warrants.

Voting Rights

The holders of our common units have the general right to vote for all purposes, including the election of our board of directors. Each holder of common units is entitled to one vote for each unit thereof held. To the extent prohibited by Section 1123(a)(6) of the United States Bankruptcy Code, we will not issue non-voting equity securities.

No Additional Capital Contribution

No holder of our common units is required to make any additional capital contributions to us or to restore any deficit in such holder s capital account.

Distributions

Distributions to the holders of our common units of our cash or other assets will be made only at such times and in such amounts as authorized by our board of directors. Distributions, if any, will be made to the holders of our common units in proportion to their percentage interests. Our board of directors will, however, to the extent of available funds, make certain tax distributions to the holders of our common units if the board determines that such distribution does not violate or breach any agreement or obligation of us.

Equity Registration Rights

As of the date hereof, holders of approximately 299,993,948 of our common units will be entitled to certain rights with respect to the registration of their units under the Securities Act.

Demand Registration Rights. Commencing 90 days following the completion of a firm commitment underwritten public offering of our securities pursuant to an effective registration statement filed by us under the Securities Act resulting in gross proceeds of at least $75.0 million to us, any holder who is a party to the equity registration rights agreement and who holds a minimum of 20% of the common units covered by the equity registration rights agreement, has the right to demand that we file a registration statement covering the resale of its common units, subject to a maximum of four such demands in the aggregate for all holders and to other specified exceptions. After we become eligible for the use of SEC Form S-3, any holder who is a party to the equity registration rights agreement, has the right to demand that we file with the SEC a registration statement under SEC Form S-3 or any similar short-form registration statement covering the common units held by these unitholders to be offered to the public, subject to specified exceptions. At the request of the holders, a demand registration may be a shelf registration pursuant to Rule 415 of the Securities Act. The underwriters of any such offerings will have the right to limit the number of units to be offered except that if a limit is imposed, then only units held by holders who are parties to the equity registration rights agreement will be included in such offering and the number of units to be included in such offering will be allocated pro rata among those same parties. In any event, we will not include any securities of any other person (including us) in any demand registration statement without the prior written consent of the holders of a majority of the common units covered by such demand registration statement.

In no event will we be required to effect more than one demand registration under the equity registration rights agreement within any three-month period (or within a given one-month period, in the case of any registration under Form S-3 or any similar short-form registration statement), and we will not be obligated to effect any demand registration unless the aggregate gross proceeds to be received from the sale of common units equals or exceeds $10.0 million (or $1.0 million, in the case of any registration under Form S-3 or any similar short-form registration statement).

Piggyback Registration Rights. If we register any equity securities for our own account for public sale, unitholders with registration rights will, with specified exceptions, have the right to include their units in the registration statement. The underwriters of any underwritten offering will have the right to limit the number of such units to be included in the registration statement if the inclusion of all common units of the holders who are a party to the equity registration rights agreement proposed to be included in such offering would materially and adversely interfere with the successful marketing of our securities. Priority of inclusion in the registration shall be given first to us, second to unitholders with registration rights, *pro rata* on the basis of the relative number of securities requested to be registered by such unitholder, and third to any other participating person on such basis as we determine.

Expenses of Registration. Other than underwriting fees, discounts, commissions, stock transfer taxes and fees and disbursements of legal counsel to participating holders (excluding the fees of one firm of legal counsel to all of the participating holders participating in an underwritten public offering), we will pay all expenses relating to demand registrations and all expenses relating to piggyback registrations.

Indemnification and Contribution. The equity registration rights agreement contains indemnification and contribution arrangements between us and unitholders who are a party to the equity registration rights agreement with respect to each registration statement.

Listing

Our common units are not listed on any stock exchange.

Transfer Agent and Registrar; Warrant Agent

The transfer agent and registrar for our common units and the warrant agent for our warrants is American Stock Transfer & Trust Company, LLC and its telephone number is (800) 937-5449.

Table of Contents

DESCRIPTION OF NOTES

You can find the definitions of certain terms used in this description under the subheading Certain Definitions. In this description, the word MagnaChip refers only to MagnaChip Semiconductor S.A., a société anonyme organized and existing under the laws of the Grand Duchy of Luxembourg, and not to any of its Subsidiaries. Parent refers to MagnaChip Semiconductor LLC and not to any of its Subsidiaries.

The term Issuers refers collectively to MagnaChip and MagnaChip Semiconductor Finance Company (FinanceCo), which is a wholly owned Subsidiary of MagnaChip. Parent, directly and through its Subsidiary MagnaChip Semiconductor S.A. Holdings LLC, owns all of the equity interests in MagnaChip. MagnaChip, directly and through its Subsidiaries, owns all of our operating businesses, including our primary operating subsidiary, MagnaChip Semiconductor, Ltd. (MagnaChip Korea).

The senior notes were issued under an indenture dated as of April 9, 2010 among the Issuers, the Guarantors and Wilmington Trust FSB, as trustee. The terms of the notes include those stated in the indenture and those made part of the indenture by reference to the Trust Indenture Act of 1939, as amended.

The following description is a summary of the material provisions of the indenture. It does not restate the indenture in its entirety. We urge you to read the indenture because it, and not this description, defines your rights as holders of the notes. A copy of the indenture is available as set forth below under Where You Can Find More Information. Certain defined terms used in this description but not defined below under Certain Definitions have the meanings assigned to them in the indenture.

The registered holder of a note will be treated as the owner of it for all purposes. Only registered holders will have rights under the indenture.

Brief Description of the Notes and the Note Guarantees

The Notes

The notes:

- are general unsecured obligations of the Issuers;
- are *pari passu* in right of payment with all existing and future unsecured Indebtedness and other liabilities (including trade payables) of the Issuers;
- are senior in right of payment to any future subordinated Indebtedness of the Issuers (if any); and
- are unconditionally guaranteed by the Guarantors.

However, the notes are effectively subordinated in right of payment to all future secured Indebtedness of the Issuers, to the extent of the value of the collateral securing such Indebtedness. The notes are also effectively subordinated in right of payment to all existing and future Indebtedness and other liabilities (including trade payables) of our Subsidiaries that are not Guarantors. See Risk Factors The notes and the guarantees are effectively subordinated to all borrowing under our future secured credit facilities and to all indebtedness and other liabilities of our non-guarantor subsidiaries.

Table of Contents

The Note Guarantees

The notes are guaranteed by Parent and all of its Restricted Subsidiaries, other than the Issuers, Immaterial Subsidiaries, MagnaChip Korea and the MagnaChip China Subsidiaries.

Each guarantee of the notes:

- is a general unsecured obligation of the Guarantor;
- is *pari passu* in right of payment with all existing and future unsecured Indebtedness and other liabilities (including trade payables) of that Guarantor;
- is senior in right of payment to any future subordinated Indebtedness of that Guarantor (if any); and
- is effectively subordinated in right of payment to all future secured Indebtedness of that Guarantor (if any) to the extent of the value of the collateral securing such Indebtedness.

As of the Issue Date, all of our Subsidiaries are Restricted Subsidiaries. However, under the circumstances described below under the caption Certain Covenants Designation of Restricted and Unrestricted Subsidiaries, we are permitted to designate certain of our Subsidiaries as Unrestricted Subsidiaries. Our Unrestricted Subsidiaries will not be subject to many of the restrictive covenants in the indenture. Our Unrestricted Subsidiaries will not guarantee the notes.

FinanceCo

FinanceCo is a Delaware corporation and a wholly owned Subsidiary of MagnaChip that exists for the purpose of facilitating the offering of the notes by acting as a co-issuer. FinanceCo is nominally capitalized and will not have any operations or revenues. As a result, prospective purchasers of the notes should not expect FinanceCo to participate in servicing the interest and principal obligations on the notes. See Certain Covenants Restrictions on Activities of FinanceCo.

Principal, Maturity and Interest

The Issuers initially issued $250 million in aggregate principal amount of notes. The Issuers may issue additional notes under the indenture from time to time after the initial notes offering. Any issuance of additional notes is subject to all of the covenants in the indenture, including the covenant described below under the caption Certain Covenants Incurrence of Indebtedness and Issuance of Preferred Stock. The notes are, and any additional notes subsequently issued under the indenture will be, treated as a single class for all purposes under the indenture, including, without limitation, waivers, amendments, redemptions and offers to purchase. The Issuers issued notes in denominations of $2,000 and integral multiples of $1,000 in excess of $2,000. The notes will mature on April 15, 2018.

Interest on the notes accrues at the rate of 10.500% per annum and is payable semiannually in arrears on April 15 and October 15, commencing on October 15, 2010. Interest on overdue principal and interest and Special Interest, if any, will accrue at a rate that is 1% higher than the then applicable interest rate on the notes. MagnaChip makes each interest payment to the holders of record on the immediately preceding April 1 and October 1.

Interest on the notes accrues from the date of original issuance or, if interest has already been paid, from the date it was most recently paid. Interest is computed on the basis of a 360-day year comprised of twelve 30-day months.

Methods of Receiving Payments on the Notes

If a holder of notes has given wire transfer instructions to MagnaChip, MagnaChip will pay all principal of, premium on, if any, interest and Special Interest, if any, on, that holder s notes in accordance with those instructions. All other payments on the notes will be made at the office or agency of the paying agent and registrar unless MagnaChip elects to make interest payments by check mailed to the noteholders at their addresses set forth in the register of holders.

Paying Agent and Registrar for the Notes

The trustee has acted as paying agent and registrar. MagnaChip may change the paying agent or registrar without prior notice to the holders of the notes, and the Issuers or any of their Subsidiaries may act as paying agent or registrar.

Transfer and Exchange

A holder may transfer or exchange notes in accordance with the provisions of the indenture. The registrar and the trustee may require a holder, among other things, to furnish appropriate endorsements and transfer documents in connection with a transfer of notes. Holders will be required to pay all taxes due on transfer. The Issuers will not be required to transfer or exchange any note selected for redemption. Also, the Issuers will not be required to transfer or exchange any note for a period of 15 days before a selection of notes to be redeemed.

Additional Amounts

All payments made under or with respect to the notes (whether or not in the form of Certificated Notes) or with respect to any Note Guarantee will be made free and clear of and without withholding or deduction for, or on account of, any present or future tax, duty, levy, impost, assessment or other governmental charge (including, without limitation, penalties, interest and other similar liabilities related thereto) of whatever nature (collectively, Taxes) unless the withholding or deduction of such Taxes is then required by law. If any deduction or withholding for, or on account of, any Taxes imposed or levied by or on behalf of any jurisdiction in which either of the Issuers or any Guarantor (including any successor entity), is then incorporated, engaged in business or resident for tax purposes or any jurisdiction from or through which payment is made by or on behalf of either of the Issuers or any Guarantor (including any successor entity), including, without limitation, the jurisdiction of any paying agent, or in each case any political subdivision thereof or therein (each, a Tax Jurisdiction), will at any time be required to be made from any payments made under or with respect to the notes or with respect to any Note Guarantee, including, without limitation, payments of principal, redemption price, purchase price, interest, Special Interest or premium, the relevant Issuer, the relevant Guarantor or other payor, as applicable, will pay such additional amounts (the Additional Amounts) as may be necessary in order that the net amounts received in respect of such payments (including Additional Amounts) by each holder after such withholding, deduction or imposition will equal the respective amounts that would have been received in respect of such payments in the absence of such withholding or deduction; *provided*, *however*, that no Additional Amounts will be payable with respect to:

(1) any Taxes that would not have been imposed but for the holder or the beneficial owner of the notes being a citizen or resident or national of, incorporated in or carrying on a business in the relevant Tax Jurisdiction in which such Taxes are imposed or having any other present or former connection with the relevant Tax Jurisdiction other than the mere acquisition, holding, enforcement or receipt of payment in respect of the notes or with respect to any Note Guarantee;

(2) any Taxes that are imposed or withheld as a result of the failure of the holder of the note or beneficial owner of the note to comply with any reasonable written request, made to that holder or beneficial owner in writing at least 90 days before any such withholding or deduction would be

payable, by either of the Issuers or any of the Guarantors to provide timely and accurate information concerning the nationality, residence or identity of such holder or beneficial owner or to make any valid and timely declaration or similar claim or satisfy any certification information or other reporting requirement, in each case which is required or imposed by a statute, treaty, regulation or administrative practice of the relevant Tax Jurisdiction as a precondition to any exemption from or reduction in all or part of such Taxes to which such holder or beneficial owner is entitled;

(3) any Taxes that are imposed or levied by reason of the presentation (where presentation is required in order to receive payment) of such notes for payment on a date more than 30 days after the date on which such payment became due and payable or the date on which payment thereof is duly provided for, whichever is later, except to the extent that the beneficial owner or holder thereof would have been entitled to Additional Amounts had the notes been presented for payment on any date during such 30-day period;

(4) any estate, inheritance, gift, sales, transfer, personal property or similar Taxes;

(5) any Taxes withheld, deducted or imposed on a payment to an individual, which withholding, deduction or imposition is required to be made pursuant to European Council Directive 2003/48/EC or any other directive implementing the conclusions of the ECOFIN Council meeting of 26 and 27 November 2000 on the taxation of savings income or any law implementing or complying with or introduced in order to conform to, such Directive;

(6) any note presented for payment by or on behalf of a holder of notes who would have been able to avoid such withholding or deduction by presenting the relevant note to another paying agent in a member state of the European Union; or

(7) any combination of items (1) through (6) above.

In addition to the foregoing, the Issuers and the Guarantors will also pay and indemnify each holder of notes for any present or future stamp, issue, registration, court, documentary, excise, property and any other similar Taxes which are levied by any Tax Jurisdiction on the execution, issuance, delivery, registration or enforcement of any of the notes, the indenture, any Note Guarantee, or any other document or instrument referred to therein or the receipt of any payment with respect to the notes, the indenture or any Note Guarantee.

At least 30 calendar days prior to each date on which any payment under or with respect to the notes or a Note Guarantee is due and payable, if either of the Issuers or any Guarantor, as the case may be, becomes aware that it will be obligated to pay Additional Amounts with respect to such payment (unless such obligation to pay Additional Amounts arises after the 30th day prior to the date on which payment under or with respect to the notes or a Note Guarantee is due and payable, in which case it will be promptly thereafter), the relevant Issuer or the relevant Guarantor, as the case may be, will deliver to the trustee an officers certificate stating the fact that Additional Amounts will be payable and the amount estimated to be so payable. The officers certificate must also set forth any other information reasonably necessary to enable the paying agents to pay Additional Amounts to holders on the relevant payment date. The trustee shall be entitled to rely solely on such officers certificate as conclusive proof that such payments are necessary. The relevant Issuer or the relevant Guarantor will provide the trustee with documentation evidencing the payment of Additional Amounts.

The relevant Issuer or the relevant Guarantor will make all withholdings and deductions required by law and will remit the full amount deducted or withheld to the relevant Tax authority in accordance with applicable law. The relevant Issuer or the relevant Guarantor will provide to the trustee an official receipt or, if official receipts are not obtainable, other documentation reasonably satisfactory to the trustee evidencing the payment of any Taxes so deducted or withheld. The relevant Issuer or the relevant Guarantor will attach to each certified copy or other document a certificate stating the amount

of such Taxes paid per $1,000 in principal amount of notes then outstanding. Upon request, copies of those receipts or other documentation, as the case may be, will be made available by the Issuers to the holders of the notes.

Whenever in the indenture or in this Description of Notes there is mentioned, in any context, the payment of amounts based upon the principal amount of the notes or of principal, interest, Special Interest or of any other amount payable under, or with respect to, any note or Note Guarantee, such mention shall be deemed to include mention of the payment of Additional Amounts to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

Note Guarantees

The notes are guaranteed by Parent and each of Parent s current and future Restricted Subsidiaries, other than the Issuers, Immaterial Subsidiaries, MagnaChip Korea and the MagnaChip China Subsidiaries. These Note Guarantees will be joint and several obligations of the Guarantors. The obligations of each Guarantor under its Note Guarantee will be limited as necessary to prevent that Note Guarantee from constituting a fraudulent conveyance under applicable law. See Risk Factors A court could void the guarantees of the notes under fraudulent transfer or similar laws, which could limit your ability to seek repayment from the guarantors.

A Restricted Subsidiary of Parent that is a Guarantor may not sell or otherwise dispose of all or substantially all of its assets to, or consolidate with or merge with or into (whether or not such Guarantor is the surviving Person) another Person, other than Parent, an Issuer or a Guarantor, unless:

(1) immediately after giving effect to such transaction, no Default or Event of Default exists; and

(2) either:

(a) the Person acquiring the property in any such sale or disposition or the Person formed by or surviving any such consolidation or merger unconditionally assumes all the obligations of that Guarantor under its Note Guarantee, the indenture, and the notes registration rights agreement pursuant to a supplemental indenture satisfactory to the trustee; or

(b) the Net Proceeds of such sale or other disposition are applied in accordance with the applicable provisions of the indenture.

The Note Guarantee of any Guarantor other than Parent will be released:

(1) in connection with any sale or other disposition of all or substantially all of the assets of that Guarantor, by way of merger, consolidation or otherwise, to a Person that is not (either before or after giving effect to such transaction) Parent or a Restricted Subsidiary of Parent, if the sale or other disposition does not violate the Asset Sale and other provisions of the indenture;

(2) in connection with any sale or other disposition of Capital Stock of that Guarantor to a Person that is not (either before or after giving effect to such transaction) Parent or a Restricted Subsidiary of Parent, if the sale or other disposition does not violate the Asset Sale and other provisions of the indenture and the Guarantor ceases to be a Restricted Subsidiary of Parent as a result of the sale or other disposition;

(3) if MagnaChip designates any Restricted Subsidiary of Parent that is a Guarantor to be an Unrestricted Subsidiary in accordance with the applicable provisions of the indenture; or

(4) upon legal defeasance, covenant defeasance or satisfaction and discharge of the indenture as provided below under the captions Legal Defeasance and Covenant Defeasance and Satisfaction and Discharge.

See Repurchase at the Option of Holders Asset Sales.

Optional Redemption

At any time prior to April 15, 2013, MagnaChip may on any one or more occasions redeem up to 35% of the aggregate principal amount of notes issued under the indenture, upon not less than 30 nor more than 60 days notice, at a redemption price equal to 110.500% of the principal amount of the notes redeemed, plus accrued and unpaid interest and Special Interest, if any, to the date of redemption (subject to the rights of holders of notes on the relevant record date to receive interest on the relevant interest payment date), with the net cash proceeds of a Qualifying Equity Offering by Parent; *provided* that:

(1) at least 65% of the aggregate principal amount of notes originally issued under the indenture (excluding notes held by Parent and its Subsidiaries) remains outstanding immediately after the occurrence of such redemption; and

(2) the redemption occurs within 90 days of the date of the closing of such Qualifying Equity Offering.

At any time prior to April 15, 2014, MagnaChip may on any one or more occasions redeem all or a part of the notes, upon not less than 30 nor more than 60 days notice, at a redemption price equal to 100% of the principal amount of the notes redeemed, plus the Applicable Premium as of, and accrued and unpaid interest and Special Interest, if any, to the date of redemption, subject to the rights of holders of notes on the relevant record date to receive interest due on the relevant interest payment date.

Except pursuant to the preceding paragraphs and the paragraphs below under the heading Redemption Upon Changes in Withholding Taxes, the notes are not redeemable at MagnaChip s option prior to April 15, 2014.

On or after April 15, 2014, MagnaChip may on any one or more occasions redeem all or a part of the notes, upon not less than 30 nor more than 60 days notice, at the redemption prices (expressed as percentages of principal amount) set forth below, plus accrued and unpaid interest and Special Interest, if any, on the notes redeemed, to the applicable date of redemption, if redeemed during the twelve-month period beginning on April 15 of the years indicated below, subject to the rights of holders of notes on the relevant record date to receive interest on the relevant interest payment date:

Year	Percentage
2014	105.250%
2015	102.625%
2016 and thereafter	100.000%

Unless MagnaChip defaults in the payment of the redemption price, interest will cease to accrue on the notes or portions thereof called for redemption on the applicable redemption date.

Redemption Upon Changes in Withholding Taxes

MagnaChip may redeem the notes, in whole but not in part, upon not less than 30 nor more than 60 days notice, at a redemption price equal to the principal amount thereof, together with accrued and unpaid interest and Special Interest, if any, to the date of redemption (a Tax Redemption Date) and all Additional Amounts (if any) then due and that will become due on the Tax Redemption Date as a result of the redemption or otherwise (subject to the right of holders of the notes on the relevant record date to receive interest (including Special Interest) due on the relevant interest payment date and Additional Amounts (if any) in respect thereof), if on the next date on which any amount would be payable in respect of the notes, MagnaChip is or would be required to pay Additional Amounts, and MagnaChip cannot avoid any such payment obligation taking reasonable measures available, and the requirement arises as a result of:

(1) any change in, or amendment to, the laws or treaties (or any regulations or rulings promulgated thereunder) of the relevant Tax Jurisdiction (as defined above) affecting taxation; or

(2) any change in, or amendment to, the existing official position regarding the application, administration or interpretation of such laws, treaties, regulations or rulings (including a holding, judgment or order by a court of competent jurisdiction or a change in published practice),

which change or amendment is publicly announced as formally proposed after and becomes effective after the Issue Date (or, if the relevant Tax Jurisdiction was not a Tax Jurisdiction on the Issue Date, the date on which the then current Tax Jurisdiction became the applicable Tax Jurisdiction under the indenture). MagnaChip shall not have the right to redeem the notes under this paragraph based on Additional Amounts being due as a result of a merger or consolidation of MagnaChip in which MagnaChip is not the surviving Person in such merger or consolidation.

MagnaChip will not give any such notice of redemption earlier than 60 days prior to the earliest date on which the relevant Issuer would be obligated to make such payment or withholding if a payment in respect of the notes were then due, and at the time such notice is given, the obligation to pay Additional Amounts must remain in effect. Prior to the publication or, where relevant, mailing of any notice of redemption of the notes pursuant to the foregoing, the Issuers will deliver to the trustee a written opinion of independent tax counsel to the effect that there has been a change or amendment that would entitle MagnaChip to redeem the notes under this provision. In addition, before the Issuers publish or mail notice of redemption of the notes as described above, they will deliver to the trustee an officers certificate to the effect that the relevant Issuer cannot avoid its obligation to pay Additional Amounts by the relevant Issuer taking reasonable measures available to it.

The trustee shall rely on such officers certificate and opinion of counsel as sufficient evidence of the existence and satisfaction of the conditions precedent as described above, in which event it will be conclusive and binding on the note holders.

For the avoidance of doubt, the implementation of European Council Directive 2003/48/EC or any other directive implementing the conclusions of the ECOFIN Council meeting of 26 and 27 November 2000 on the taxation of savings income or any law implementing or complying with or introduced in order to conform to such directive will not be a change or amendment for such purposes.

Mandatory Redemption

The Issuers are not required to make mandatory redemption or sinking fund payments with respect to the notes.

Repurchase at the Option of Holders

Change of Control

If a Change of Control occurs, each holder of notes has the right to require MagnaChip to repurchase all or any part (equal to $2,000 or an integral multiple of $1,000 in excess thereof) of that holder s notes pursuant to a Change of Control Offer on the terms set forth in the indenture. In the Change of Control Offer, MagnaChip will offer a Change of Control Payment in cash equal to 101% of the aggregate principal amount of notes repurchased, plus accrued and unpaid interest and Special Interest, if any, on the notes repurchased to the date of purchase, subject to the rights of holders of notes on the relevant record date to receive interest due on the relevant interest payment date. Within 30 days following any Change of Control, MagnaChip will mail a notice to each holder describing the transaction or transactions that constitute the Change of Control and offering to repurchase notes on the Change of Control Payment Date specified in the notice, which date will be no earlier than ten business days and no later than 60 days from the date such notice is mailed, pursuant to the procedures required by the indenture and described in such notice. MagnaChip will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent those laws and regulations are applicable in connection with the repurchase of the notes as a result of a Change of Control. To the extent that the provisions of any securities laws or regulations conflict with the Change of Control provisions of the indenture, MagnaChip will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Change of Control provisions of the indenture by virtue of such compliance.

On the Change of Control Payment Date, MagnaChip will, to the extent lawful:

(1) accept for payment all notes or portions of notes properly tendered pursuant to the Change of Control Offer;

(2) deposit with the paying agent an amount equal to the Change of Control Payment in respect of all notes or portions of notes properly tendered; and

(3) deliver or cause to be delivered to the trustee the notes properly accepted together with an officers certificate stating the aggregate principal amount of notes or portions of notes being purchased by MagnaChip.

The paying agent will promptly mail to each holder of notes properly tendered the Change of Control Payment for such notes, and the trustee will promptly authenticate and mail (or cause to be transferred by book entry) to each holder a new note equal in principal amount to any unpurchased portion of the notes surrendered, if any; *provided* that each such new note will be in a denomination of $2,000 or an integral multiple of $1,000 in excess thereof. MagnaChip will publicly announce the results of the Change of Control Offer on or as soon as practicable after the Change of Control Payment Date.

The provisions described above that require MagnaChip to make a Change of Control Offer following a Change of Control will be applicable whether or not any other provisions of the indenture are applicable. Except as described above with respect to a Change of Control, the indenture does not contain provisions that permit the holders of the notes to require that MagnaChip repurchase or redeem the notes in the event of a takeover, recapitalization or similar transaction.

MagnaChip will not be required to make a Change of Control Offer upon a Change of Control if (1) a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the indenture applicable to a Change of Control Offer made by MagnaChip and purchases all notes properly tendered and not withdrawn under the Change of Control Offer, or (2) notice of redemption has been given pursuant to the indenture as described above under the caption Optional Redemption, unless and until there is a default in payment of the

applicable redemption price. Notwithstanding anything to the contrary contained herein, a Change of Control Offer may be made in advance of a Change of Control, conditioned upon the consummation of such Change of Control, if a definitive agreement is in place for the Change of Control at the time the Change of Control Offer is made.

The definition of Change of Control includes a phrase relating to the direct or indirect sale, lease, transfer, conveyance or other disposition of all or substantially all of the properties or assets of Parent and its Subsidiaries taken as a whole. Although there is a limited body of case law interpreting the phrase substantially all, there is no precise established definition of the phrase under applicable law. Accordingly, the ability of a holder of notes to require MagnaChip to repurchase its notes as a result of a sale, lease, transfer, conveyance or other disposition of less than all of the assets of Parent and its Subsidiaries taken as a whole to another Person or group may be uncertain.

Asset Sales

Parent will not, and will not permit any of its Restricted Subsidiaries to, consummate an Asset Sale unless:

(1) Parent (or the Restricted Subsidiary, as the case may be) receives consideration at the time of the Asset Sale at least equal to the Fair Market Value (measured as of the date of the definitive agreement with respect to such Asset Sale) of the assets or Equity Interests issued or sold or otherwise disposed of; and

(2) at least 75% of the consideration received in the Asset Sale by Parent or such Restricted Subsidiary is in the form of cash or Cash Equivalents. For purposes of this provision, each of the following will be deemed to be cash:

(a) any liabilities of Parent or such Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the notes or any Note Guarantee) that are assumed by the transferee of any such assets pursuant to a customary novation or indemnity agreement that releases Parent or such Restricted Subsidiary from or indemnifies against further liability;

(b) any securities, notes or other obligations received by Parent or any such Restricted Subsidiary from such transferee that are converted by Parent or such Restricted Subsidiary into cash or Cash Equivalents within 60 days of consummation of such Asset Sale, to the extent of the cash and Cash Equivalents received in that conversion;

(c) any Designated Non-cash Consideration received by Parent or such Restricted Subsidiary in such Asset Sale having an aggregate Fair Market Value, taken together will all other Designated Non-cash Consideration received pursuant to this clause (c) that is at that time outstanding, not to exceed 5.0% of Total Assets at the time of the receipt of such Designated Non-cash Consideration, with the Fair Market Value of each item of Designated Non-cash Consideration being measured at the time received and without giving effect to subsequent changes in value; and

(d) any stock or assets of the kind referred to in clauses (2) or (4) of the next paragraph of this covenant.

Within 365 days after the receipt of any Net Proceeds from an Asset Sale, Parent (or the applicable Restricted Subsidiary, as the case may be) may apply such Net Proceeds:

(1) to repay (a) Obligations under a Credit Facility that are secured by a Lien permitted by the indenture; or (b) other Indebtedness (other than Subordinated Indebtedness) of Parent or any Restricted Subsidiary that is secured by a Lien permitted by the indenture;

(2) to acquire all or substantially all of the assets of, or any Capital Stock of, another Permitted Business, if, after giving effect to any such acquisition of Capital Stock, the Permitted Business is or becomes a Restricted Subsidiary of Parent;

(3) to make a capital expenditure;

(4) to acquire other assets that are not classified as current assets under GAAP and that are used or useful in a Permitted Business; or

(5) any combination of (1) (4) of this paragraph.

In the case of clauses (2) and (4), Parent will be deemed to have complied with its obligations above if it enters into a binding commitment to acquire such assets or Capital Stock within the required time frame above, provided that such binding commitment shall be subject only to customary conditions and such acquisition shall be consummated within six months from the date of signing such binding commitment.

Pending the final application of any Net Proceeds, Parent (or the applicable Restricted Subsidiary) may temporarily reduce revolving credit borrowings or otherwise invest the Net Proceeds in any manner that is not prohibited by the indenture.

Any Net Proceeds from Asset Sales that are not applied or invested as provided in the second paragraph of this covenant will constitute Excess Proceeds. When the aggregate amount of Excess Proceeds exceeds $20.0 million, within 30 days thereof, MagnaChip will make an offer (an Asset Sale Offer) to all holders of notes and all holders of other Indebtedness that is *pari passu* with the notes containing provisions similar to those set forth in the indenture with respect to offers to purchase, prepay or redeem with the proceeds of sales of assets to purchase, prepay or redeem the maximum principal amount of notes and such other *pari passu* Indebtedness (plus all accrued interest on the Indebtedness and the amount of all fees and expenses, including premiums, incurred in connection therewith) that may be purchased, prepaid or redeemed out of the Excess Proceeds. The offer price in any Asset Sale Offer will be equal to 100% of the principal amount, plus accrued and unpaid interest and Special Interest, if any, to the date of purchase, prepayment or redemption, subject to the rights of holders of notes on the relevant record date to receive interest due on the relevant interest payment date, and will be payable in cash. If any Excess Proceeds remain after consummation of an Asset Sale Offer, MagnaChip may use those Excess Proceeds for any purpose not otherwise prohibited by the indenture. If the aggregate principal amount of notes and other *pari passu* Indebtedness tendered in (or required to be prepaid or redeemed in connection with) such Asset Sale Offer exceeds the amount of Excess Proceeds, the trustee will select the notes and the agent or trustee for such *pari passu* Indebtedness shall select such other *pari passu* Indebtedness to be purchased on a pro rata basis, based on the amounts tendered or required to be prepaid or redeemed (with such adjustments as may be deemed appropriate by MagnaChip so that only notes in denominations of $2,000, or an integral multiple of $1,000 in excess thereof, will be purchased). Upon completion of each Asset Sale Offer, the amount of Excess Proceeds will be reset at zero.

MagnaChip will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent those laws and regulations are applicable in connection with each repurchase of notes pursuant to an Asset Sale Offer. To the extent that the provisions of any securities laws or regulations conflict with the Asset Sale provisions of the indenture, MagnaChip will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Asset Sale provisions of the indenture by virtue of such compliance.

The agreements governing future Indebtedness of Parent and its Restricted Subsidiaries may contain prohibitions of certain events, including events that would constitute a Change of Control or an Asset Sale and including repurchases of or other prepayments in respect of the notes. The exercise by

Table of Contents

the holders of notes of their right to require MagnaChip to repurchase the notes upon a Change of Control or an Asset Sale could cause a default under these other agreements, even if the Change of Control or Asset Sale itself does not, due to the financial effect of such repurchases on Parent and its Restricted Subsidiaries. In the event a Change of Control or an Asset Sale occurs at a time when MagnaChip is prohibited from purchasing notes, Parent could seek the consent of its lenders to the purchase of notes or could attempt to refinance the borrowings that contain such prohibition. If Parent does not obtain a consent or repay those borrowings, MagnaChip will remain prohibited from purchasing notes. In that case, MagnaChip s failure to purchase tendered notes would constitute an Event of Default under the indenture which could, in turn, constitute a default under the other Indebtedness. Finally, MagnaChip s ability to pay cash to the holders of notes upon a repurchase may be limited by MagnaChip s then existing financial resources. See Risk Factors We may not be able to fulfill our repurchase obligations with respect to the notes upon a change of control or an asset sale.

Selection and Notice

If less than all of the notes are to be redeemed at any time, the trustee will select notes for redemption on a *pro rata* basis (or, in the case of notes issued in global form as discussed under Book-Entry, Delivery and Form, based on a method that most nearly approximates a *pro rata* selection as the trustee deems fair and appropriate) unless otherwise required by law or applicable stock exchange or depositary requirements.

No notes of $2,000 or less can be redeemed in part. Notices of redemption will be mailed by first class mail at least 30 but not more than 60 days before the redemption date to each holder of notes to be redeemed at its registered address, except that redemption notices may be mailed more than 60 days prior to a redemption date if the notice is issued in connection with a defeasance of the notes or a satisfaction and discharge of the indenture. Notices of redemption may not be conditional.

If any note is to be redeemed in part only, the notice of redemption that relates to that note will state the portion of the principal amount of that note that is to be redeemed. A new note in principal amount equal to the unredeemed portion of the original note will be issued in the name of the holder of notes upon cancellation of the original note. Notes called for redemption become due on the date fixed for redemption. On and after the redemption date, interest ceases to accrue on notes or portions of notes called for redemption.

Certain Covenants

Changes in Covenants When Notes Rated Investment Grade

If on any date following the Issue Date:

(1) the notes are rated Baa3 or better by Moody s and BBB- or better by S&P (or, if either such entity ceases to rate the notes for reasons outside of the control of Parent, the equivalent investment grade credit rating from any other nationally recognized statistical rating organization within the meaning of Rule 15c3-1(c)(2)(vi)(F) under the Exchange Act selected by Parent as a replacement agency); and

(2) no Default or Event of Default shall have occurred and be continuing,

then, beginning on that day and subject to the provisions of the following paragraph, the covenants specifically listed under the following captions in this prospectus will be suspended:

(1) Repurchase at the Option of Holders Asset Sales;

(2) Restricted Payments;

(3) Incurrence of Indebtedness and Issuance of Preferred Stock;

Table of Contents

(4) Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries;

(5) Designation of Restricted and Unrestricted Subsidiaries;

(6) Transactions with Affiliates;

(7) clause (4) of the covenant described below under the caption Merger, Consolidation or Sale of Assets Parent;

(8) clause (4) of the covenant described below under the caption Merger, Consolidation or Sale of Assets MagnaChip; and

(9) clauses (1)(a) and (3) of the covenant described below under the caption Limitation on Sale and Leaseback Transactions.

During any period that the foregoing covenants have been suspended, Parent s Board of Directors may not designate any of its Subsidiaries as Unrestricted Subsidiaries pursuant to the covenant described below under the caption Designation of Restricted and Unrestricted Subsidiaries or the second paragraph of the definition of Unrestricted Subsidiary.

Notwithstanding the foregoing, if the rating assigned by either such rating agency should subsequently decline to below Baa3 or BBB-, respectively, the foregoing covenants will be reinstated as of and from the date of such rating decline. Calculations under the reinstated Restricted Payments covenant will be made as if the Restricted Payments covenant had been in effect since the date of the indenture except that no default will be deemed to have occurred solely by reason of a Restricted Payment made while that covenant was suspended.

There can be no assurance that the notes will achieve an investment grade rating or that any such rating will be maintained.

Restricted Payments

Parent will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly:

(1) declare or pay any dividend or make any other payment or distribution on account of Parent s or any of its Restricted Subsidiaries Equity Interests (including, without limitation, any payment in connection with any merger or consolidation involving Parent or any of its Restricted Subsidiaries) or to the direct or indirect holders of Parent s or any of its Restricted Subsidiaries Equity Interests in their capacity as such (other than dividends or distributions payable in Equity Interests (other than Disqualified Stock) of Parent and other than dividends or distributions payable to Parent or a Restricted Subsidiary of Parent);

(2) purchase, redeem or otherwise acquire or retire for value (including, without limitation, in connection with any merger or consolidation involving Parent) any Equity Interests of Parent or any direct or indirect parent of Parent;

(3) make any payment on or with respect to, or purchase, redeem, defease or otherwise acquire or retire for value any Indebtedness of the Issuers or any Guarantor that is contractually subordinated to the notes or to any Note Guarantee (excluding any intercompany Indebtedness between or among Parent and any of its Restricted Subsidiaries) (collectively, Subordinated Debt), except a payment of interest or principal at the Stated Maturity thereof; or

(4) make any Restricted Investment

(all such payments and other actions set forth in these clauses (1) through (4) above being collectively referred to as Restricted Payments), unless, at the time of and after giving effect to such Restricted Payment:

(a) no Default or Event of Default has occurred and is continuing or would occur as a consequence of such Restricted Payment;

(b) Parent would, at the time of such Restricted Payment and after giving pro forma effect thereto as if such Restricted Payment had been made at the beginning of the applicable four-quarter period, have been permitted to incur at least $1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in the first paragraph of the covenant described below under the caption Incurrence of Indebtedness and Issuance of Preferred Stock; and

(c) such Restricted Payment, together with the aggregate amount of all other Restricted Payments made by Parent and its Restricted Subsidiaries since the Issue Date (excluding Restricted Payments permitted by clauses (2) through (12) of the next succeeding paragraph), is less than the sum, without duplication, of:

(1) 50% of the Consolidated Net Income of Parent for the period (taken as one accounting period) from the beginning of the first fiscal quarter commencing after the Issue Date to the end of Parent s most recently ended fiscal quarter for which internal financial statements are available at the time of such Restricted Payment (or, if such Consolidated Net Income for such period is a deficit, less 100% of such deficit); *plus*

(2) 100% of the aggregate cash proceeds, including cash and Cash Equivalents, and the Fair Market Value of assets (as to which an opinion or appraisal issued by an accounting, appraisal or investment bank firm of national standing shall be required if the Fair Market Value exceeds $15.0 million), received by Parent since the Issue Date as a contribution to its common equity capital or from the issue or sale of Qualifying Equity Interests of Parent or from the issue or sale of convertible or exchangeable Disqualified Stock of Parent or convertible or exchangeable debt securities of Parent, in each case that have been converted into or exchanged for Qualifying Equity Interests of Parent (other than Qualifying Equity Interests and convertible or exchangeable Disqualified Stock or debt securities (a) sold to a Subsidiary of Parent or (b) sold in the Initial Public Offering); plus

(3) to the extent that any Restricted Investment that was made after the Issue Date is (a) sold for cash or otherwise cancelled, liquidated or repaid for cash, or (b) made in an entity that subsequently becomes a Restricted Subsidiary of Parent, the initial amount of such Restricted Investment (or, if less, the amount of cash received upon repayment or sale); *plus*

(4) to the extent that any Unrestricted Subsidiary of Parent designated as such after the Issue Date is redesignated as a Restricted Subsidiary after the Issue Date, the lesser of (i) the Fair Market Value of Parent s Restricted Investment in such Subsidiary as of the date of such redesignation or (ii) such Fair Market Value as of the date on which such Subsidiary was originally designated as an Unrestricted Subsidiary after the Issue Date; *plus*

(5) 100% of any dividends received in cash by Parent or a Restricted Subsidiary after the Issue Date from an Unrestricted Subsidiary, to the extent that such dividends were not otherwise included in the Consolidated Net Income of Parent for such period;

provided, however, that the aggregate amount of Restricted Payments of the type described in clauses (1) and (2) of the definition of Restricted Payments pursuant to this clause (c) shall not exceed 50% of the aggregate amount of Restricted Payments otherwise permitted by this clause (c).

The preceding provisions will not prohibit:

(1) the payment of any dividend or the consummation of any irrevocable redemption within 60 days after the date of declaration of the dividend or giving of the redemption notice, as the case may be, if at the date of declaration or notice, the dividend or redemption payment would have complied with the provisions of the indenture;

(2) the making of any Restricted Payment in exchange for, or out of or with the net cash proceeds of the substantially concurrent sale (other than to a Subsidiary of Parent) of, Equity Interests of Parent (other than Disqualified Stock or Equity Interests sold in the Initial Public Offering) or from the

substantially concurrent contribution of common equity capital to Parent; *provided* that the amount of any such net cash proceeds that are utilized for any such Restricted Payment will not be considered to be net proceeds of Qualifying Equity Interests for purposes of clause (c)(2) of the preceding paragraph;

(3) the payment of any dividend (or, in the case of any partnership or limited liability company, any similar distribution) by a Restricted Subsidiary to the holders of its Equity Interests on a *pro rata* basis;

(4) the repurchase, redemption, defeasance or other acquisition or retirement for value of Indebtedness of either Issuer or any Guarantor that is contractually subordinated to the notes or to any Note Guarantee with the net cash proceeds from a substantially concurrent incurrence of Permitted Refinancing Indebtedness;

(5) so long as no Default or Event of Default has occurred and is continuing, the repurchase, redemption or other acquisition or retirement for value of any Equity Interests of Parent or any Restricted Subsidiary of Parent held by any current or former officer, director or employee of Parent or any of its Restricted Subsidiaries pursuant to any employment agreement, equity subscription agreement, stock option agreement, stockholders agreement or similar agreement; *provided* that the aggregate price paid for all such repurchased, redeemed, acquired or retired Equity Interests may not exceed $5.0 million in any twelve-month period plus the amount of cash proceeds from any key man life insurance received during such twelve-month period; *provided*, *further*, that such amount may be increased by an amount not to exceed the cash proceeds from the sale of Equity Interests of Parent to current or former members of management, directors, managers or consultants of Parent or any of its Subsidiaries that occurs after the Issue Date, to the extent the cash proceeds from the sale of such Equity Interests have not otherwise been applied to the making of Restricted Payments by virtue of clause (c)(2) of the preceding paragraph;

(6) the repurchase of Equity Interests deemed to occur upon the exercise of stock options to the extent such Equity Interests represent a portion of the exercise price of those stock options, and repurchases of Equity Interests deemed to occur upon the withholding of a portion of the Equity Interests granted or awarded to a current or former officer, director, employee or consultant to pay for the taxes payable by such Person upon such grant or award (or upon vesting thereof);

(7) so long as no Default or Event of Default has occurred and is continuing, the declaration and payment of regularly scheduled or accrued dividends to holders of any class or series of Disqualified Stock of Parent or any preferred stock of any Restricted Subsidiary of Parent issued on or after the Issue Date in accordance with the Fixed Charge Coverage Ratio test described below under the caption Incurrence of Indebtedness and Issuance of Preferred Stock;

(8) payments of cash, dividends, distributions, advances or other Restricted Payments by Parent or any of its Restricted Subsidiaries to allow the payment of cash in lieu of the issuance of fractional shares upon (i) the exercise of options or warrants or (ii) the conversion or exchange of Capital Stock of any such Person;

(9) Permitted Tax Payments;

(10) upon the occurrence of a Change of Control and within 60 days after the completion of the offer to repurchase the notes pursuant to the covenant described under Change of Control above, any purchase or redemption of Subordinated Debt required pursuant to the terms thereof as a result of such Change of Control; *provided*, *however*, that at the time of such purchase or redemption no Event of Default shall have occurred and be continuing (or would result therefrom);

(11) any purchase or redemption of Subordinated Debt using any remaining Excess Proceeds of an Asset Sale within 60 days after completion of an Asset Sale Offer; *provided*, *however*, that at the time of such purchase or redemption no Event of Default shall have occurred and be continuing (or would result therefrom);

(12) the application of the proceeds of this offering of notes as described above under the caption Use of Proceeds; and

(13) other Restricted Payments in an aggregate amount not to exceed $25.0 million since the Issue Date; *provided*, *however*, that the aggregate amount of Restricted Payments of the type described in clauses (1) and (2) of the definition of Restricted Payments permitted by this clause (13) shall not exceed $12.5 million since the Issue Date.

The amount of all Restricted Payments (other than cash) will be the Fair Market Value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued by Parent or such Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment. The Fair Market Value of any assets or securities that are required to be valued by this covenant will be determined by the Board of Directors of Parent, whose resolution with respect thereto will be delivered to the trustee.

Incurrence of Indebtedness and Issuance of Preferred Stock

Parent will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur, issue, assume, guarantee or otherwise become directly or indirectly liable, contingently or otherwise, with respect to (collectively, incur) any Indebtedness (including Acquired Debt), and Parent will not issue any Disqualified Stock and will not permit any of its Restricted Subsidiaries to issue any shares of preferred stock; *provided*, *however*, that Parent may incur Indebtedness (including Acquired Debt) or issue Disqualified Stock, and the Issuers and the Guarantors (other than Parent) may incur Indebtedness (including Acquired Debt) or issue preferred stock, if:

(a) the Fixed Charge Coverage Ratio for Parent s most recently ended four full fiscal quarters for which internal financial statements are available immediately preceding the date on which such additional Indebtedness is incurred or such Disqualified Stock or such preferred stock is issued, as the case may be, would have been at least (a) at any time prior to the completion of the Initial Public Offering, 2.25 to 1.0, and (b) at any time on or after completion of the Initial Public Offering, 2.0 to 1.0, in each case determined on a pro forma basis (including a pro forma application of the net proceeds therefrom), as if the additional Indebtedness had been incurred or the Disqualified Stock or the preferred stock had been issued, as the case may be, at the beginning of such four-quarter period; and

(b) in the case of any such Indebtedness that is *Pari Passu* Indebtedness, the sum of the aggregate principal amount of *Pari Passu* Indebtedness incurred pursuant to this paragraph since the Issue Date that is outstanding on the date of such incurrence plus the aggregate principal amount of notes outstanding on the date of such incurrence (in each case, after giving pro forma effect to the incurrence of such *Pari Passu* Indebtedness and application of the net proceeds therefrom) does not exceed (a) at any time prior to the completion of the Initial Public Offering, $350.0 million, or (b) at any time on or after completion of the Initial Public Offering, $500.0 million.

The first paragraph of this covenant will not prohibit the incurrence of any of the following items of Indebtedness (collectively, Permitted Debt):

(1) the incurrence by Parent and any of its Restricted Subsidiaries of additional Indebtedness and letters of credit under Credit Facilities in an aggregate principal amount at any one time outstanding under this clause (1)(with letters of credit being deemed to have a principal amount equal to the maximum potential liability of Parent and its Restricted Subsidiaries thereunder) not to exceed the greater of (a) $75.0 million or (b) the Borrowing Base as of the date of incurrence;

(2) the incurrence by Parent and its Restricted Subsidiaries of the Existing Indebtedness;

(3) the incurrence by Issuers and the Guarantors of Indebtedness represented by the notes and the related Note Guarantees to be issued under the indenture and the exchange notes and the related Note Guarantees to be issued pursuant to the notes registration rights agreement;

Table of Contents

(4) the incurrence by Parent or any of its Restricted Subsidiaries of Indebtedness represented by Capital Lease Obligations, mortgage financings or purchase money obligations, in each case, incurred for the purpose of financing all or any part of the purchase price, taxes or cost of design, construction, installation or improvement of property, plant or equipment (including software) used in the business of Parent or any of its Restricted Subsidiaries, in an aggregate principal amount, including all Permitted Refinancing Indebtedness incurred to renew, refund, refinance, replace, defease or discharge any Indebtedness incurred pursuant to this clause (4), not to exceed the greater of (a) $25.0 million or (b) 5% of Total Assets as of any date of incurrence;

(5) the incurrence by Parent or any of its Restricted Subsidiaries of Permitted Refinancing Indebtedness in exchange for, or the net proceeds of which are used to renew, refund, refinance, replace, defease or discharge any Indebtedness (other than intercompany Indebtedness) that was permitted by the indenture to be incurred under the first paragraph of this covenant or clauses (2), (3), (4), (5) or (16) of this paragraph;

(6) the incurrence by Parent or any of its Restricted Subsidiaries of intercompany Indebtedness between or among Parent and any of its Restricted Subsidiaries; *provided*, *however*, that:

(a) if either Issuer or any Guarantor is the obligor on such Indebtedness and the payee is not an Issuer or a Guarantor, such Indebtedness must be unsecured and expressly subordinated to the prior payment in full in cash of all Obligations then due with respect to the notes, in the case of the Issuers, or the Note Guarantee, in the case of a Guarantor; and

(b) (i) any subsequent issuance or transfer of Equity Interests that results in any such Indebtedness being held by a Person other than Parent or a Restricted Subsidiary and (ii) any sale or other transfer of any such Indebtedness to a Person that is not either Parent or a Restricted Subsidiary of Parent,

will be deemed, in each case, to constitute an incurrence of such Indebtedness by Parent or such Restricted Subsidiary, as the case may be, that was not permitted by this clause (6);

(7) the issuance by any of Parent s Restricted Subsidiaries to Parent or to any of its Restricted Subsidiaries of shares of preferred stock; *provided*, *however*, that:

(a) any subsequent issuance or transfer of Equity Interests that results in any such preferred stock being held by a Person other than Parent or a Restricted Subsidiary of Parent; and

(b) any sale or other transfer of any such preferred stock to a Person that is not either Parent or a Restricted Subsidiary of Parent, will be deemed, in each case, to constitute an issuance of such preferred stock by such Restricted Subsidiary that was not permitted by this clause (7);

(8) the incurrence by Parent or any of its Restricted Subsidiaries of Hedging Obligations in the ordinary course of business;

(9) the guarantee by the Issuers or any of the Guarantors of Indebtedness of Parent or a Restricted Subsidiary of Parent to the extent that the guaranteed Indebtedness was permitted to be incurred by another provision of this covenant; provided that if the Indebtedness being guaranteed is subordinated to or *pari passu* with the notes, then the Guarantee must be subordinated or *pari passu*, as applicable, to the same extent as the Indebtedness guaranteed;

(10) the incurrence by Parent or any of its Restricted Subsidiaries of Indebtedness in respect of workers compensation claims, health, disability or other employee benefits or property, casualty or liability insurance, self-insurance obligations and bankers acceptances in the ordinary course of business;

Table of Contents

(11) the incurrence by Parent or any of its Restricted Subsidiaries of Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument inadvertently drawn against insufficient funds, so long as such Indebtedness is covered within five business days;

(12) the incurrence of Indebtedness by Parent or any of its Restricted Subsidiaries in the form of performance bonds, completion guarantees and surety or appeal bonds and similar obligations entered into by Parent or any of its Restricted Subsidiaries in the ordinary course of their business;

(13) Indebtedness of Parent or any Restricted Subsidiary issued to any of its directors, employees, officers or consultants or to a Restricted Subsidiary in connection with the redemption or purchase of Capital Stock that, by its terms or by operation of law, is subordinated to the notes, is not secured by any of the assets of Parent or the Restricted Subsidiaries and does not require cash payments prior to the Stated Maturity of the notes, in an aggregate principal amount which, when added with the amount of Indebtedness incurred under this clause (13) and then outstanding, does not exceed $5.0 million at any one time outstanding;

(14) the incurrence of Indebtedness by Parent or any of the Restricted Subsidiaries arising from agreements of Parent or any of the Restricted Subsidiaries providing for adjustment of purchase price or other similar obligations, in each case, incurred or assumed in connection with the acquisition or disposition of any business, assets or a Restricted Subsidiary of Parent;

(15) Indebtedness incurred by Parent or any of the Restricted Subsidiaries constituting reimbursement obligations under letters of credit issued in the ordinary course of business, including, without limitation, letters of credit to procure raw materials or relating to workers compensation claims or self-insurance, or other Indebtedness relating to reimbursement-type obligations regarding workers compensation claims; and

(16) the incurrence by the Issuers or any of the Guarantors of additional Indebtedness or Disqualified Stock in an aggregate principal amount (or accreted value, as applicable) at any time outstanding, including all Permitted Refinancing Indebtedness incurred to renew, refund, refinance, replace, defease or discharge any Indebtedness incurred pursuant to this clause (16), not to exceed $25.0 million.

Parent will not, and will not permit any Guarantor to, incur any Indebtedness (including Permitted Debt) that is contractually subordinated in right of payment to any other Indebtedness of the Issuers or such Guarantor unless such Indebtedness is also contractually subordinated in right of payment to the notes and the applicable Note Guarantee on substantially identical terms; *provided*, *however*, that no Indebtedness will be deemed to be contractually subordinated in right of payment to any other Indebtedness of the Issuers or any Guarantor solely by virtue of being unsecured or by virtue of being secured on a junior priority basis.

For purposes of determining compliance with this Incurrence of Indebtedness and Issuance of Preferred Stock covenant, in the event that an item of Indebtedness meets the criteria of more than one of the categories of Permitted Debt described in clauses (1) through (16) above, or is entitled to be incurred pursuant to the first paragraph of this covenant, MagnaChip will be permitted to classify such item of Indebtedness on the date of its incurrence, or later reclassify all or a portion of such item of Indebtedness, in any manner that complies with this covenant. The accrual of interest or preferred stock dividends, the accretion or amortization of original issue discount, the payment of interest on any Indebtedness in the form of additional Indebtedness with the same terms, the reclassification of preferred stock as Indebtedness due to a change in accounting principles, and the payment of dividends on preferred stock or Disqualified Stock in the form of additional shares of the same class of preferred stock or Disqualified Stock will not be deemed to be an incurrence of Indebtedness or an issuance of preferred stock or Disqualified Stock for purposes of this covenant; *provided*, in each such case, that the amount thereof is included in Fixed Charges of Parent as accrued. For purposes of

determining compliance with any U.S. dollar-denominated restriction on the incurrence of Indebtedness, the U.S. dollar-equivalent principal amount of Indebtedness denominated in a foreign currency shall be utilized, calculated based on the relevant currency exchange rate in effect on the date such Indebtedness was incurred. Notwithstanding any other provision of this covenant, the maximum amount of Indebtedness that Parent or any Restricted Subsidiary may incur pursuant to this covenant shall not be deemed to be exceeded solely as a result of fluctuations in exchange rates or currency values.

The amount of any Indebtedness outstanding as of any date will be:

(1) the accreted value of the Indebtedness, in the case of any Indebtedness issued with original issue discount;

(2) the principal amount of the Indebtedness, in the case of any other Indebtedness; and

(3) in respect of Indebtedness of another Person secured by a Lien on the assets of the specified Person, the lesser of:

(a) the Fair Market Value of such assets at the date of determination; and

(b) the amount of the Indebtedness of the other Person.

Liens

Parent will not, and will not permit any of its Restricted Subsidiaries to, create, incur, assume or otherwise cause or suffer to exist or become effective any Lien of any kind (other than Permitted Liens) securing Indebtedness, Attributable Debt or trade payables upon any of its or their property or assets, now owned or hereafter acquired, unless all payments due under the indenture and the notes are secured on an equal and ratable basis with the obligations so secured until such time as such obligations are no longer secured by a Lien.

Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries

Parent will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create or permit to exist or become effective any consensual encumbrance or restriction on the ability of any Restricted Subsidiary to:

(1) pay dividends or make any other distributions on its Capital Stock to Parent or any of its Restricted Subsidiaries, or with respect to any other interest or participation in, or measured by, its profits, or pay any indebtedness owed to Parent or any of its Restricted Subsidiaries;

(2) make loans or advances to Parent or any of its Restricted Subsidiaries; or

(3) sell, lease or transfer any of its properties or assets to Parent or any of its Restricted Subsidiaries.

However, the preceding restrictions will not apply to encumbrances or restrictions existing under or by reason of:

(1) agreements governing Existing Indebtedness as in effect on the Issue Date and any amendments, restatements, modifications, renewals, supplements, refundings, replacements or refinancings of those agreements; *provided* that the amendments, restatements, modifications, renewals, supplements, refundings, replacements or refinancings are not materially more restrictive, taken as a whole, with respect to such dividend and other payment restrictions than those contained in those agreements on the Issue Date;

(2) the indenture, the notes and the Note Guarantees;

(3) agreements governing other Indebtedness permitted to be incurred under the provisions of the covenant described above under the caption Incurrence of Indebtedness and Issuance of Preferred Stock and any amendments, restatements, modifications, renewals, supplements, refundings, replacements or refinancings of those agreements; *provided* that the Board of Directors of Parent determines in good faith that the encumbrances and restrictions in the agreements governing such Indebtedness (or any such amendment, restatement, modification, renewal, supplement, refunding, replacement or refinancing) will not materially adversely affect the ability of MagnaChip to make payments on the notes when due;

(4) applicable law, rule, regulation or order;

(5) any instrument governing Indebtedness or Capital Stock of a Person acquired by Parent or any of its Restricted Subsidiaries as in effect at the time of such acquisition (except to the extent such Indebtedness or Capital Stock was incurred in connection with or in contemplation of such acquisition), which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person, or the property or assets of the Person, so acquired; provided that, in the case of Indebtedness, such Indebtedness was permitted by the terms of the indenture to be incurred;

(6) customary non-assignment provisions in contracts and licenses entered into in the ordinary course of business;

(7) purchase money obligations for property acquired in the ordinary course of business and Capital Lease Obligations that impose restrictions on the property purchased or leased of the nature described in clause (4) of the definition of Permitted Debt;

(8) any agreement for the sale or other disposition of a Restricted Subsidiary or all or substantially all of the assets thereof that restricts distributions by that Restricted Subsidiary pending its sale or other disposition;

(9) Permitted Refinancing Indebtedness; *provided* that the restrictions contained in the agreements governing such Permitted Refinancing Indebtedness are not materially more restrictive, taken as a whole, than those contained in the agreements governing the Indebtedness being refinanced;

(10) Liens permitted to be incurred under the provisions of the covenant described above under the caption Liens that limit the right of the debtor to dispose of the assets subject to such Liens;

(11) provisions limiting the disposition or distribution of assets or property in joint venture agreements, asset sale agreements, sale-leaseback agreements, stock sale agreements and other similar agreements (including agreements entered into in connection with a Restricted Investment) entered into with the approval of Parent s Board of Directors, which limitation is applicable only to the assets that are the subject of such agreements;

(12) restrictions on cash or other deposits or net worth imposed by customers under contracts entered into in the ordinary course of business; and

(13) restrictions under customary provisions in partnership agreements, limited liability company organizational or governance documents, joint venture agreements, corporate charters, stockholders agreements and other similar agreements and documents on the transfer of ownership interests in such partnership, limited liability company, joint venture or similar Person.

Merger, Consolidation or Sale of Assets

PARENT

Parent will not, directly or indirectly: (1) consolidate or merge with or into another Person (whether or not Parent is the surviving corporation), or (2) sell, assign, transfer, convey or otherwise dispose of all or substantially all of the properties or assets of Parent and its Restricted Subsidiaries taken as a whole, in one or more related transactions, to another Person, unless:

(1) either: (a) Parent is the surviving entity; or (b) the Person formed by or surviving any such consolidation or merger (if other than Parent) or to which such sale, assignment, transfer, conveyance or other disposition has been made is an entity organized or existing under the laws of the United States, any state of the United States or the District of Columbia; and, if such entity is not a corporation, a co-obligor of the notes is a corporation organized or existing under any such laws;

(2) the Person formed by or surviving any such consolidation or merger (if other than Parent) or the Person to which such sale, assignment, transfer, conveyance or other disposition has been made assumes all the obligations of Parent under the notes, its Note Guarantee, the indenture and the notes registration rights agreement pursuant to agreements as required under the terms of the indenture and the notes registration rights agreement;

(3) immediately after such transaction, no Default or Event of Default exists; and

(4) Parent or the Person formed by or surviving any such consolidation or merger (if other than Parent), or to which such sale, assignment, transfer, conveyance or other disposition has been made would, on the date of such transaction after giving pro forma effect thereto and any related financing transactions as if the same had occurred at the beginning of the applicable four-quarter period, be permitted to incur at least $1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in the first paragraph of the covenant described above under the caption Incurrence of Indebtedness and Issuance of Preferred Stock.

In addition, Parent will not, directly or indirectly, lease all or substantially all of the properties and assets of it and its Restricted Subsidiaries, taken as a whole, in one or more related transactions, to any other Person.

This Merger, Consolidation or Sale of Assets covenant will not apply to any sale, assignment, transfer, conveyance, lease or other disposition of assets between or among Parent and its Restricted Subsidiaries. Clauses (3) and (4) of the first paragraph of this covenant will not apply to (1) any merger or consolidation of Parent with or into (A) one of its Restricted Subsidiaries for any purpose or (B) an Affiliate solely for the purpose of reincorporating Parent in another jurisdiction, or (2) the corporate conversion at any time prior to the consummation of the Initial Public Offering.

MAGNACHIP

MagnaChip will not, directly or indirectly: (1) consolidate or merge with or into another Person (whether or not MagnaChip is the surviving corporation), or (2) sell, assign, transfer, convey or otherwise dispose of all or substantially all of the properties or assets of MagnaChip and its Restricted Subsidiaries taken as a whole, in one or more related transactions, to another Person, unless:

(1) either: (a) MagnaChip is the surviving corporation; or (b) the Person formed by or surviving any such consolidation or merger (if other than MagnaChip) or to which such sale, assignment, transfer, conveyance or other disposition has been made is an entity organized or existing under the laws of South Korea, Luxembourg, the Netherlands, Bermuda, the United States, any state of the United States or the District of Columbia; and, if such entity is not a corporation, a co-obligor of the notes is a corporation organized or existing under any such laws;

(2) the Person formed by or surviving any such consolidation or merger (if other than MagnaChip) or the Person to which such sale, assignment, transfer, conveyance or other disposition has been made assumes all the obligations of MagnaChip under the notes, the indenture and the notes registration rights agreement pursuant to agreements necessary under the terms of the indenture and notes registration rights agreement;

(3) immediately after such transaction, no Default or Event of Default exists;

(4) MagnaChip or the Person formed by or surviving any such consolidation or merger (if other than MagnaChip), or to which such sale, assignment, transfer, conveyance or other disposition has been made would, on the date of such transaction after giving pro forma effect thereto and any related financing transactions as if the same had occurred at the beginning of the applicable four-quarter period, be permitted to incur at least $1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in the first paragraph of the covenant described above under the caption Incurrence of Indebtedness and Issuance of Preferred Stock; and

(5) if MagnaChip is not the surviving Person in such consolidation or merger, MagnaChip shall have delivered to the trustee an opinion of counsel from Luxembourg and any other jurisdiction as necessary that no Taxes on income, including capital gains, other than Taxes to the extent that Additional Amounts are required to be paid with respect thereto, will be payable by holders of the notes under the laws of any jurisdiction where the Person formed by or surviving any such consolidation or merger is or becomes organized, resident or engaged in business for tax purposes relating to the acquisition, ownership or disposition of the notes, including the receipt of interest or principal thereon; *provided* that the holder does not use or hold, and for relevant tax purposes is not deemed to use or hold, the notes in carrying on a business in the jurisdiction where the Person formed by or surviving any such consolidation or merger is or becomes organized, resident or engaged in business for tax purposes.

In addition, MagnaChip will not, directly or indirectly, lease all or substantially all of the properties and assets of it and its Restricted Subsidiaries taken as a whole, in one or more related transactions, to any other Person.

This Merger, Consolidation or Sale of Assets covenant will not apply to any sale, assignment, transfer, conveyance, lease or other disposition of assets between or among Parent and its Restricted Subsidiaries. Clauses (3) and (4) of the first paragraph of this covenant will not apply to any merger or consolidation of MagnaChip with or into (1) one of its Restricted Subsidiaries for any purpose or (2) an Affiliate solely for the purpose of reincorporating MagnaChip in another jurisdiction.

FINANCECO

FinanceCo may not, directly or indirectly, consolidate or merge with or into (whether or not FinanceCo is the surviving corporation), or sell, assign, transfer, lease, convey or otherwise dispose of all or substantially all of FinanceCo s properties or assets, in one or more related transactions, to any Person unless:

(1) concurrently therewith, a corporate wholly-owned Restricted Subsidiary of MagnaChip organized and validly existing under the laws of the United States, any state of the United States or the District of Columbia (which may be the successor Person as a result of such transaction) expressly assumes all the obligations of FinanceCo under the under the notes, the indenture and the notes registration rights agreement pursuant to agreements as required under the terms of the indenture and the notes registration rights agreement; and

(2) immediately after such transaction, no Default or Event of Default exists.

Transactions with Affiliates

Parent will not, and will not permit any of its Restricted Subsidiaries to, make any payment to or sell, lease, transfer or otherwise dispose of any of its properties or assets to, or purchase any property or assets from, or enter into or make or amend any transaction, contract, agreement, understanding, loan, advance or guarantee with, or for the benefit of, any Affiliate of MagnaChip (each, an Affiliate Transaction) involving aggregate payments or consideration in excess of $2.5 million, unless:

(1) the Affiliate Transaction is on terms that are no less favorable to Parent or the relevant Restricted Subsidiary than those that would have been obtained in a comparable transaction by Parent or such Restricted Subsidiary with an unrelated Person; and

(2) MagnaChip delivers to the trustee:

(a) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of $10.0 million, a resolution of the Board of Directors of Parent set forth in an officers certificate certifying that such Affiliate Transaction complies with this covenant and that such Affiliate Transaction has been approved by a majority of the disinterested members of the Board of Directors of Parent; and

(b) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of $20.0 million, an opinion by (A) a nationally recognized investment banking firm or (B) an accounting or appraisal firm nationally recognized in making determinations of this kind that such Affiliate Transaction is fair, from a financial standpoint, to Parent or the applicable Restricted Subsidiary.

The following items will not be deemed to be Affiliate Transactions and, therefore, will not be subject to the provisions of the prior paragraph:

(1) any employment agreement, employee compensation or benefit plan, officer or director indemnification agreement or any similar arrangement entered into by Parent or any of its Restricted Subsidiaries, and payments made pursuant thereto, in the ordinary course of business and payments pursuant thereto;

(2) transactions between or among Parent and/or its Restricted Subsidiaries;

(3) transactions with a Person (other than an Unrestricted Subsidiary of Parent) that is an Affiliate of MagnaChip solely because Parent owns, directly or through a Restricted Subsidiary, an Equity Interest in, or controls, such Person;

(4) payment of reasonable and customary fees and reimbursements of expenses (pursuant to indemnity arrangements or otherwise) of officers, directors, employees or consultants of Parent or any of its Restricted Subsidiaries;

(5) the grant of equity incentives or similar rights to employees and directors of Parent or MagnaChip Korea pursuant to plans approved by the Board of Directors of Parent or MagnaChip Korea or a committee thereof comprised solely of independent directors;

(6) any issuance of securities, or other payments, awards or grants in cash, securities or otherwise pursuant to, or the funding of, employment arrangements, stock options and stock ownership plans approved by Parent s Board of Directors or a committee thereof comprised solely of independent directors;

(7) any issuance of Equity Interests (other than Disqualified Stock) of Parent to Affiliates of MagnaChip;

(8) Restricted Payments that do not violate the provisions of the indenture described above under the caption Restricted Payments;

(9) transactions pursuant to any contract or agreement with Parent or any of the Restricted Subsidiaries in effect on the Issue Date, as the same may be amended, modified or replaced from time to time so long as any such amendment, modification or replacement is not more disadvantageous to the holders of the notes in any material respect than the terms contained in such contract or agreement as in effect on the Issue Date;

(10) transactions pursuant to or under the 2009 Registration Rights Agreement, the 2009 Warrant Agreement, the Director Indemnification Agreements and the Credit Agreement as in effect on the Issue Date or any similar agreement or any amendment, modification or replacement of the 2009 Registration Rights Agreement, the 2009 Warrant Agreement, the Director Indemnification Agreements or the Credit Agreement or similar agreement; provided that the terms of such amendment, modification or replacement are not more disadvantageous to the holders of the notes in any material respect than the terms contained in the 2009 Registration Rights Agreement, the 2009 Warrant Agreement, the Director Indemnification Agreements or the Credit Agreement, as the case may be, as in effect on the Issue Date, and the repayment of the obligations outstanding under the Credit Agreement;

(11) the payment of management, consulting and advisory fees and related expenses made pursuant to the Advisory Agreements and the payment of other customary management, consulting and advisory fees and related expenses to the Principals and any of their respective Affiliates in connection with transactions of Parent or its Subsidiaries or pursuant to any management, consulting, financial advisory, financing, underwriting or placement agreement or in respect of other investment banking activities, including in connection with acquisitions or divestitures, which fees and expenses are made pursuant to arrangements approved by the Board of Directors of Parent or such Subsidiary in good faith;

(12) the provision by an Affiliate of commercial banking or lending services or other similar services on terms that are no less favorable to Parent or the relevant Restricted Subsidiary than those that would have been obtained by an unaffiliated party and that are approved in good faith by the Board of Directors of Parent; and

(13) loans or advances to employees in the ordinary course of business not to exceed $5.0 million in the aggregate at any one time outstanding.

Additional Note Guarantees

If Parent or any of its Restricted Subsidiaries acquires or creates another Subsidiary after the Issue Date, then that newly acquired or created Subsidiary will become a Guarantor and execute a supplemental indenture and deliver an opinion of counsel satisfactory to the trustee within 10 business days of the date on which it was acquired or created; provided that:

(1) any Subsidiary that constitutes an Immaterial Subsidiary need not become a Guarantor until such time as it ceases to be an Immaterial Subsidiary;

(2) in the event Parent or a Restricted Subsidiary forms or otherwise acquires, directly or indirectly, a Restricted Subsidiary organized under the laws of a jurisdiction other than the United States and such jurisdiction prohibits by law, regulation or order such Restricted Subsidiary from becoming a Guarantor, Parent shall use all commercially reasonable efforts (including pursuing required waivers) over a period up to one year, to have such Subsidiary become a Restricted Subsidiary; *provided*, *however*, that Parent shall not be required to use such commercially reasonable efforts with respect to such Restricted Subsidiaries for more than a one-year period or such shorter period as it shall determine in good faith that it has used all commercially reasonable efforts and if Parent or such Restricted Subsidiary is unable during such period to obtain an enforceable Guarantee in such jurisdiction, then such Restricted Subsidiary will not be required to provide a Guarantee of the notes pursuant to the Note Guarantee so long as such Restricted

Table of Contents

Subsidiary does not Guarantee any other Indebtedness of Parent and its Restricted Subsidiaries and no Default or Event of Default shall be deemed to exist during the period that Parent uses its commercially reasonable efforts to have such Restricted Subsidiary enter into a Note Guarantee; and

(3) neither MagnaChip Korea nor any of its Subsidiaries nor any of the MagnaChip China Subsidiaries will be required to become a Guarantor under any circumstances.

Designation of Restricted and Unrestricted Subsidiaries

The Board of Directors of Parent may designate any Restricted Subsidiary of Parent (other than the Issuers) to be an Unrestricted Subsidiary if that designation would not cause a Default; *provided* that in no event will the business currently operated by MagnaChip Korea be transferred to or held by an Unrestricted Subsidiary. If a Restricted Subsidiary is designated as an Unrestricted Subsidiary, the aggregate Fair Market Value of all outstanding Investments owned by Parent and its Restricted Subsidiaries in the Subsidiary designated as Unrestricted will be deemed to be an Investment made as of the time of the designation and will reduce the amount available for Restricted Payments under the covenant described above under the caption Restricted Payments or under one or more clauses of the definition of Permitted Investments, as determined by MagnaChip. That designation will only be permitted if the Investment would be permitted at that time and if the Restricted Subsidiary otherwise meets the definition of an Unrestricted Subsidiary.

Any designation of a Subsidiary of Parent as an Unrestricted Subsidiary will be evidenced to the trustee by filing with the trustee a certified copy of a resolution of the Board of Directors of Parent giving effect to such designation and an officers certificate certifying that such designation complied with the preceding conditions and was permitted by the covenant described above under the caption Restricted Payments. If, at any time, any Unrestricted Subsidiary would fail to meet the preceding requirements as an Unrestricted Subsidiary, it will thereafter cease to be an Unrestricted Subsidiary for purposes of the indenture and any Indebtedness of such Subsidiary will be deemed to be incurred by a Restricted Subsidiary of Parent as of such date and, if such Indebtedness is not permitted to be incurred as of such date under the covenant described under the caption Incurrence of Indebtedness and Issuance of Preferred Stock, MagnaChip will be in default of such covenant. The Board of Directors of Parent may at any time designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided* that such designation will be deemed to be an incurrence of Indebtedness by a Restricted Subsidiary of any outstanding Indebtedness of such Unrestricted Subsidiary, and such designation will only be permitted if (1) such Indebtedness is permitted under the covenant described under the caption Incurrence of Indebtedness and Issuance of Preferred Stock, calculated on a pro forma basis as if such designation had occurred at the beginning of the applicable reference period; and (2) no Default or Event of Default would be in existence following such designation.

Restrictions on Activities of FinanceCo.

FinanceCo will not hold any material assets, become liable for any material obligations or engage in any significant business activities; provided that FinanceCo may be a co-obligor or guarantor with respect to Indebtedness if MagnaChip is an obligor on such Indebtedness and the net proceeds of such Indebtedness are received by MagnaChip, FinanceCo or one or more Guarantors.

Limitation on Sale and Leaseback Transactions

Parent will not, and will not permit any of its Restricted Subsidiaries to, enter into any sale and leaseback transaction; *provided* that Parent or any Restricted Subsidiary may enter into a sale and leaseback transaction if:

(1) Parent or that Restricted Subsidiary, as applicable, could have (a) incurred Indebtedness in an amount equal to the Attributable Debt relating to such sale and leaseback transaction under the

Fixed Charge Coverage Ratio test in the first paragraph of the covenant described above under the caption Incurrence of Indebtedness and Issuance of Preferred Stock and (b) incurred a Lien to secure such Indebtedness pursuant to the covenant described above under the caption Liens;

(2) the gross cash proceeds of that sale and leaseback transaction are at least equal to the Fair Market Value, as determined in good faith by the Board of Directors of Parent and set forth in an officers certificate delivered to the trustee, of the property that is the subject of that sale and leaseback transaction; and

(3) the transfer of assets in that sale and leaseback transaction is permitted by, and Parent applies the proceeds of such transaction in compliance with, the covenant described above under the caption Repurchase at the Option of Holders Asset Sales.

Reports

Whether or not required by the rules and regulations of the SEC, so long as any notes are outstanding, Parent will furnish to the holders of notes or cause the trustee to furnish to the holders of notes (or file with the SEC for public availability), not later than 30 days after expiration of the time periods specified in the SEC s rules and regulations:

(1) all quarterly and annual reports that would be required to be filed with the SEC on Forms 10-Q and 10-K if Parent were required to file such reports, including a Management s Discussion and Analysis of Financial Condition and Results of Operations; and

(2) all current reports that would be required to be filed with the SEC on Form 8-K if Parent were required to file such reports.

All such reports will be prepared in all material respects in accordance with all of the rules and regulations applicable to such reports. In addition, following the consummation of the exchange offer contemplated by the notes registration rights agreement, Parent will file a copy of each of the reports referred to in clauses (1) and (2) above with the SEC for public availability within the time periods specified in the rules and regulations applicable to such reports (unless the SEC will not accept such a filing) and will post the reports on its website within those time periods. Parent will at all times comply with § 314(a) of the Trust Indenture Act.

If, at any time after the consummation of the exchange offer contemplated by the notes registration rights agreement, Parent is no longer subject to the periodic reporting requirements of the Exchange Act for any reason, Parent will nevertheless continue filing the reports specified in the preceding paragraphs of this covenant with the SEC within the time periods specified above unless the SEC will not accept such a filing. Parent will not take any action for the purpose of causing the SEC not to accept any such filings. If, notwithstanding the foregoing, the SEC will not accept Parent s filings for any reason, Parent will post the reports referred to in the preceding paragraphs on its website within the time periods that would apply if Parent were required to file those reports with the SEC.

If Parent has designated any of its Subsidiaries as Unrestricted Subsidiaries, then Parent will disclose in Management s Discussion and Analysis of Financial Condition and Results of Operations, the revenues for the applicable period and assets as of the end of the applicable period attributable to Unrestricted Subsidiaries of Parent.

In addition, the Issuers and the Guarantors agree that, for so long as any notes remain outstanding, if at any time they are not required to file with the SEC the reports required by the preceding paragraphs, they will furnish to the holders of notes and to securities analysts and prospective investors, upon their request, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

Table of Contents

Notwithstanding the foregoing, Parent will be deemed to have furnished the reports referred to above to the trustee and the holders on the date Parent files such reports with the SEC via the EDGAR filing system (or any successor thereto, including Interactive Data Electronic Applications) and such reports become publicly available.

Events of Default and Remedies

Each of the following is an Event of Default :

(1) default for 30 days in the payment when due of interest and Special Interest, if any, on the notes;

(2) default in the payment when due (at maturity, upon redemption, repurchase or otherwise) of the principal of, or premium, if any, on, the notes;

(3) failure by Parent or any of its Restricted Subsidiaries to comply with the provisions described under the caption Certain Covenants Merger, Consolidation or Sale of Assets;

(4) failure by Parent or any of its Restricted Subsidiaries for 30 days after notice to MagnaChip by the trustee or the holders of at least 25% in aggregate principal amount of the notes then outstanding, voting as a single class, to comply with the provisions described under the captions Repurchase at the Option of Holders Change of Control; or Repurchase at the Option of Holders Asset Sales;

(5) failure by Parent or any of its Restricted Subsidiaries for 60 days after notice to MagnaChip by the trustee or the holders of at least 25% in aggregate principal amount of the notes then outstanding, voting as a single class, to comply with any of the other agreements in the indenture;

(6) default under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness for money borrowed by Parent or any of its Restricted Subsidiaries (or the payment of which is Guaranteed by Parent or any of its Restricted Subsidiaries), whether such Indebtedness or Guarantee now exists, or is created after the Issue Date, if that default:

(a) is caused by a failure to pay principal of, premium on, if any, or interest, if any, on, such Indebtedness in an aggregate amount in excess of $250,000, prior to the expiration of the grace period provided in such Indebtedness on the date of such default (a Payment Default); or

(b) results in the acceleration of such Indebtedness prior to its express maturity,

and, in each case, the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there has been a Payment Default or the maturity of which has been so accelerated, aggregates $25.0 million or more;

(7) failure by Parent or any of its Restricted Subsidiaries to pay final judgments entered by a court or courts of competent jurisdiction aggregating in excess of $25.0 million (excluding amounts covered by insurance provided by a carrier that has acknowledged coverage in writing and has the ability to perform), which judgments are not paid, bonded, discharged, stayed, annulled or rescinded for a period of 60 days;

(8) except as permitted by the indenture, any Note Guarantee is held in any judicial proceeding to be unenforceable or invalid or ceases for any reason to be in full force and effect, or any Guarantor, or any Person acting on behalf of any Guarantor, denies or disaffirms its obligations under its Note Guarantee; and

(9) certain events of bankruptcy or insolvency described in the indenture with respect to Parent, either Issuer or any of the other Restricted Subsidiaries of Parent that is a Significant Subsidiary or any group of its Restricted Subsidiaries of Parent at the same or similar time that, taken together, would constitute a Significant Subsidiary.

In the case of an Event of Default arising from certain events of bankruptcy or insolvency, with respect to Parent, either Issuer or any of the other Restricted Subsidiaries of Parent that is a Significant Subsidiary or any group of Restricted Subsidiaries of Parent that, taken together, would constitute a Significant Subsidiary, all outstanding notes will become due and payable immediately without further action or notice. If any other Event of Default occurs and is continuing, the trustee or the holders of at least 25% in aggregate principal amount of the then outstanding notes may declare all the notes to be due and payable immediately; *provided* that no such declaration will be permitted with respect to an Event of Default of the type referred to in clause (6) above if the underlying Payment Default has been cured or waived or the underlying acceleration has been waived or rescinded, as the case may be.

Notwithstanding the foregoing, the indenture will provide that, to the extent that the Issuers elect, the sole remedy for an Event of Default relating to the reporting obligations in the indenture, as set forth under Certain Covenants Reports, will, for the 180 days after the occurrence of such Event of Default, consist exclusively of the right to receive additional interest on the notes at a rate equal to 0.50% per annum of the principal amount of the notes. This additional interest will be payable in the same manner and on the same dates as the stated interest payable on the notes. The additional interest will accrue on all outstanding notes from, and including, the date on which an Event of Default relating to a failure to comply with the reporting obligations in the indenture first occurs to, but not including, the 180th day thereafter (or such earlier date on which the Event of Default relating to the reporting obligations shall have been cured or waived). On such 180th day, such additional interest shall cease to accrue and the notes will be subject to acceleration as provided above. If the Issuers do not elect to pay the additional interest during the continuance of such an Event of Default in accordance with this paragraph, the notes will be subject to acceleration as provided above.

Subject to certain limitations, holders of a majority in aggregate principal amount of the then outstanding notes may direct the trustee in its exercise of any trust or power. The trustee may withhold from holders of the notes notice of any continuing Default or Event of Default if it determines that withholding notice is in their interest, except a Default or Event of Default relating to the payment of principal of, premium on, if any, interest and Special Interest, if any.

Subject to the provisions of the indenture relating to the duties of the trustee, in case an Event of Default occurs and is continuing, the trustee will be under no obligation to exercise any of the rights or powers under the indenture at the request or direction of any holders of notes unless such holders have offered to the trustee indemnity or security satisfactory to the trustee against any loss, liability or expense. Except to enforce the right to receive payment of principal, premium, if any, interest or Special Interest, if any, when due, no holder of a note may pursue any remedy with respect to the indenture or the notes unless:

(1) such holder has previously given the trustee written notice that an Event of Default is continuing;

(2) holders of at least 25% in aggregate principal amount of the then outstanding notes make a written request to the trustee to pursue the remedy;

(3) such holder or holders offer and, if requested, provide to the trustee security or indemnity reasonably satisfactory to the trustee against any loss, liability or expense;

(4) the trustee does not comply with such request within 60 days after receipt of the request and the offer of security or indemnity; and

(5) during such 60-day period, holders of a majority in aggregate principal amount of the then outstanding notes do not give the trustee a direction inconsistent with such request.

The holders of a majority in aggregate principal amount of the then outstanding notes by written notice to the trustee may, on behalf of the holders of all of the notes, rescind an acceleration or waive any existing Default or Event of Default and its consequences under the indenture, if the rescission would not conflict with any judgment or decree, except a continuing Default or Event of Default in the payment of principal of, premium on, if any, interest or Special Interest, if any, on, the notes.

MagnaChip is required to deliver to the trustee annually a statement regarding compliance with the indenture. Upon becoming aware of any Default or Event of Default, MagnaChip is required to deliver to the trustee a statement specifying such Default or Event of Default.

No Personal Liability of Directors, Officers, Employees and Stockholders

No past, present or future director, officer, employee, incorporator or stockholder of the Issuers or any Guarantor, as such, will have any liability for any obligations of the Issuers or the Guarantors under the notes, the indenture, the Note Guarantees or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each holder of notes by accepting a note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the notes. The waiver may not be effective to waive liabilities under the federal securities laws.

Legal Defeasance and Covenant Defeasance

MagnaChip may at any time, at the option of the Board of Directors of MagnaChip evidenced by a resolution set forth in an officers certificate, elect to have all of the obligations of the Issuers discharged with respect to the outstanding notes and all obligations of the Guarantors discharged with respect to their Note Guarantees (Legal Defeasance) except for:

(1) the rights of holders of outstanding notes to receive payments in respect of the principal of, premium on, if any, interest or Special Interest, if any, on, such notes when such payments are due from the trust referred to below;

(2) the Issuers obligations with respect to the notes concerning issuing temporary notes, registration of notes, mutilated, destroyed, lost or stolen notes and the maintenance of an office or agency for payment and money for security payments held in trust;

(3) the rights, powers, trusts, duties and immunities of the trustee under the indenture, and the Issuers and the Guarantors obligations in connection therewith; and

(4) the Legal Defeasance and Covenant Defeasance provisions of the indenture.

In addition, MagnaChip may, at its option and at any time, elect to have the obligations of the Issuers and the Guarantors released with respect to certain covenants (including its obligation to make Change of Control Offers and Asset Sale Offers) that are described in the indenture (Covenant Defeasance) and thereafter any omission to comply with those covenants will not constitute a Default or Event of Default with respect to the notes. In the event Covenant Defeasance occurs, all Events of Default described under Events of Default and Remedies (except those relating to payments on the notes or bankruptcy, receivership, rehabilitation or insolvency events) will no longer constitute an Event of Default with respect to the notes.

In order to exercise either Legal Defeasance or Covenant Defeasance:

(1) MagnaChip must irrevocably deposit with the trustee, in trust, for the benefit of the holders of the notes, cash in U.S. dollars, non-callable Government Securities, or a combination thereof, in amounts as will be sufficient, in the opinion of a nationally recognized investment bank, appraisal

Table of Contents

firm or firm of independent public accountants, to pay the principal of, premium on, if any, interest and Special Interest, if any, on, the outstanding notes on the stated date for payment thereof or on the applicable redemption date, as the case may be, and MagnaChip must specify whether the notes are being defeased to such stated date for payment or to a particular redemption date;

(2) in the case of Legal Defeasance, MagnaChip must deliver to the trustee an opinion of counsel confirming that (a) MagnaChip has received from, or there has been published by, the Internal Revenue Service a ruling or (b) since the Issue Date, there has been a change in the applicable federal income tax law, in either case to the effect that, and based thereon such opinion of counsel will confirm that, the holders of the outstanding notes will not recognize income, gain, deduction or loss for federal income tax purposes as a result of such Legal Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;

(3) in the case of Covenant Defeasance, MagnaChip must deliver to the trustee an opinion of counsel confirming that the holders of the outstanding notes will not recognize income, gain, deduction or loss for federal income tax purposes as a result of such Covenant Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;

(4) no Default or Event of Default has occurred and is continuing on the date of such deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit (and any similar concurrent deposit relating to other Indebtedness), and the granting of Liens to secure such borrowings);

(5) such Legal Defeasance or Covenant Defeasance will not result in a breach or violation of, or constitute a default under, any material agreement or instrument (other than the indenture and the agreements governing any other Indebtedness being defeased, discharged or replaced) to which any of the Issuers or any of the Guarantors is a party or by which any of the Issuers or any of the Guarantors is bound;

(6) MagnaChip must deliver to the trustee an officers certificate stating that the deposit was not made by MagnaChip with the intent of preferring the holders of notes over the other creditors of MagnaChip with the intent of defeating, hindering, delaying or defrauding any creditors of MagnaChip or others; and

(7) MagnaChip must deliver to the trustee an officers certificate and an opinion of counsel, each stating that all conditions precedent relating to the Legal Defeasance or the Covenant Defeasance have been complied with.

Amendment, Supplement and Waiver

Except as provided in the next two succeeding paragraphs, the indenture or the notes or the Note Guarantees may be amended or supplemented with the consent of the holders of at least a majority in aggregate principal amount of the then outstanding notes (including, without limitation, additional notes, if any) voting as a single class (including, without limitation, consents obtained in connection with a tender offer or exchange offer for, or purchase of, the notes), and any existing Default or Event of Default (other than a Default or Event of Default in the payment of the principal of, premium on, if any, interest or Special Interest, if any, on, the notes, except a payment default resulting from an acceleration that has been rescinded) or compliance with any provision of the indenture or the notes or the Note Guarantees may be waived with the consent of the holders of a majority in aggregate principal amount of the then outstanding notes (including, without limitation, additional notes, if any) voting as a single class (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, notes).

Table of Contents

Without the consent of each holder of notes affected, an amendment, supplement or waiver may not (with respect to any notes held by a non-consenting holder):

(1) reduce the principal amount of notes whose holders must consent to an amendment, supplement or waiver;

(2) reduce the principal of or change the fixed maturity of any note or alter or waive any of the provisions with respect to the redemption of the notes (except those provisions relating to the covenants described above under the caption Repurchase at the Option of Holders);

(3) reduce the rate of or change the time for payment of interest, including default interest, on any note;

(4) waive a Default or Event of Default in the payment of principal of, premium on, if any, interest or Special Interest, if any, on, the notes (except a rescission of acceleration of the notes by the holders of at least a majority in aggregate principal amount of the then outstanding notes and a waiver of the payment default that resulted from such acceleration);

(5) make any note payable in money other than that stated in the notes;

(6) make any change in the provisions of the indenture relating to waivers of past Defaults or the rights of holders of notes to receive payments of principal of, premium on, if any, interest or Special Interest, if any, on, the notes;

(7) waive a redemption payment with respect to any note (other than a payment required by one of the covenants described above under the caption Repurchase at the Option of Holders);

(8) release any Guarantor from any of its obligations under its Note Guarantee or the indenture, except in accordance with the terms of the indenture; or

(9) make any change in the preceding amendment and waiver provisions.

Notwithstanding the preceding, without the consent of any holder of notes, the Issuers, the Guarantors and the trustee may amend or supplement the indenture, the notes or the Note Guarantees:

(1) to cure any ambiguity, defect or inconsistency;

(2) to provide for uncertificated notes in addition to or in place of certificated notes;

(3) to provide for the assumption of an Issuer s or a Guarantor s obligations to holders of notes and Note Guarantees in the case of a merger or consolidation or sale of all or substantially all of such Issuer s or such Guarantor s assets, as applicable;

(4) to make any change that would provide any additional rights or benefits to the holders of notes or that does not adversely affect the legal rights under the indenture of any holder;

(5) to comply with requirements of the SEC in order to effect or maintain the qualification of the indenture under the Trust Indenture Act;

(6) to conform the text of the indenture, the notes, the Note Guarantees to any provision of this Description of Notes to the extent that such provision in this Description of Notes was intended to be a verbatim recitation of a provision of the indenture, the notes, the Note Guarantees, which intent may be evidenced by an officers certificate to that effect;

(7) to provide for the issuance of additional notes in accordance with the limitations set forth in the indenture as of the Issue Date; or

(8) to allow any Guarantor to execute a supplemental indenture and/or a Note Guarantee with respect to the notes.

Table of Contents

Satisfaction and Discharge

The indenture will be discharged and will cease to be of further effect as to all notes issued thereunder, when:

(1) either:

(a) all notes that have been authenticated, except lost, stolen or destroyed notes that have been replaced or paid and notes for whose payment money has been deposited in trust and thereafter repaid to MagnaChip, have been delivered to the trustee for cancellation; or

(b) all notes that have not been delivered to the trustee for cancellation have become due and payable by reason of the mailing of a notice of redemption or otherwise or will become due and payable within one year and MagnaChip or any Guarantor has irrevocably deposited or caused to be deposited with the trustee as trust funds in trust solely for the benefit of the holders, cash in U.S. dollars, non-callable Government Securities, or a combination thereof, in amounts as will be sufficient, without consideration of any reinvestment of interest, to pay and discharge the entire Indebtedness on the notes not delivered to the trustee for cancellation for principal of, premium on, if any, interest and Special Interest, if any, on, the notes to the date of maturity or redemption;

(2) in respect of clause 1(b), no Default or Event of Default has occurred and is continuing on the date of the deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit and any similar deposit relating to other Indebtedness and, in each case, the granting of Liens to secure such borrowings) and the deposit will not result in a breach or violation of, or constitute a default under, any other instrument to which either Issuer or any Guarantor is a party or by which either Issuer or any Guarantor is bound (other than with respect to the borrowing of funds to be applied concurrently to make the deposit required to effect such satisfaction and discharge and any similar concurrent deposit relating to other Indebtedness, and in each case the granting of Liens to secure such borrowings);

(3) an Issuer or any Guarantor has paid or caused to be paid all sums payable by it under the indenture; and

(4) an Issuer has delivered irrevocable instructions to the trustee under the indenture to apply the deposited money toward the payment of the notes at maturity or on the redemption date, as the case may be.

In addition, Parent must deliver an officers certificate and an opinion of counsel to the trustee stating that all conditions precedent to satisfaction and discharge have been satisfied.

Concerning the Trustee

If the trustee becomes a creditor of either Issuer or any Guarantor, the indenture limits the right of the trustee to obtain payment of claims in certain cases, or to realize on certain property received in respect of any such claim as security or otherwise. The trustee will be permitted to engage in other transactions; however, if it acquires any conflicting interest it must eliminate such conflict within 90 days, apply to the SEC for permission to continue as trustee (if the indenture has been qualified under the Trust Indenture Act) or resign.

The holders of a majority in aggregate principal amount of the then outstanding notes have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the trustee, subject to certain exceptions. The indenture provides that in case an Event of Default has occurred and is continuing, the trustee will be required, in the exercise of its power, to use the degree of care of a prudent man in the conduct of his own affairs. Subject to such provisions, the trustee will be under no obligation to exercise any of its rights or powers under the indenture at the request of any holder of notes, unless such holder has offered to the trustee reasonable indemnity or security satisfactory to it against any loss, liability or expense.

Table of Contents

Governing Law

The internal law of the state of New York will govern and be used to construe the indenture, the notes and the note guarantees without giving effect to applicable principles of conflicts of law to the extent that the application of the laws of another jurisdiction would be required thereby. For the avoidance of doubt, the indenture, the notes and the note guarantees are not subject to Article 86 to 94-8 of the Luxembourg law of 10 August 1915 on commercial companies, as amended.

Additional Information

Anyone who receives this prospectus may obtain a copy of the indenture and the notes registration rights agreement without charge by writing to c/o MagnaChip Semiconductor, Inc., 20400 Stevens Creek Boulevard, Suite 370, Cupertino, CA 95014, Attention: General Counsel.

Book-Entry, Delivery and Form

Except as set forth below, the notes were issued in registered, global form in minimum denominations of $2,000 and integral multiples of $1,000. The notes are in the form of one or more registered global notes without interest coupons (collectively, the Global Notes). The Global Notes were deposited upon issuance with the trustee as custodian for The Depository Trust Company (DTC), in New York, New York, and registered in the name of DTC or its nominee, in each case, for credit to an account of a direct or indirect participant in DTC as described below.

Except as set forth below, the Global Notes may be transferred, in whole and not in part, only to another nominee of DTC or to a successor of DTC or its nominee. Beneficial interests in the Global Notes may not be exchanged for definitive notes in registered certificated form (Certificated Notes) except in the limited circumstances described below. See Exchange of Global Notes for Certificated Notes. Except in the limited circumstances described below, owners of beneficial interests in the Global Notes are not be entitled to receive physical delivery of notes in certificated form.

Depository Procedures

The following description of the operations and procedures of DTC, Euroclear and Clearstream are provided solely as a matter of convenience. These operations and procedures are solely within the control of the respective settlement systems and are subject to changes by them. The Issuers take no responsibility for these operations and procedures and urges investors to contact the system or their participants directly to discuss these matters.

DTC has advised the Issuers that DTC is a limited-purpose trust company created to hold securities for its participating organizations (collectively, the Participants) and to facilitate the clearance and settlement of transactions in those securities between the Participants through electronic book-entry changes in accounts of its Participants. The Participants include securities brokers and dealers (including the Initial Purchasers), banks, trust companies, clearing corporations and certain other organizations. Access to DTC s system is also available to other entities such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Participant, either directly or indirectly (collectively, the Indirect Participants). Persons who are not Participants may beneficially own securities held by or on behalf of DTC only through the Participants or the Indirect Participants. The ownership interests in, and transfers of ownership interests in, each security held by or on behalf of DTC are recorded on the records of the Participants and Indirect Participants.

DTC has also advised the Issuers that, pursuant to procedures established by it:

(1) upon deposit of the Global Notes, DTC will credit the accounts of the Participants with portions of the principal amount of the Global Notes; and

(2) ownership of these interests in the Global Notes will be shown on, and the transfer of ownership of these interests will be effected only through, records maintained by DTC (with respect to the Participants) or by the Participants and the Indirect Participants (with respect to other owners of beneficial interest in the Global Notes).

Investors in the Global Notes who are Participants may hold their interests therein directly through DTC. Investors in the Global Notes who are not Participants may hold their interests therein indirectly through organizations (including Euroclear and Clearstream) which are Participants. All interests in a Global Note, including those held through Euroclear or Clearstream, may be subject to the procedures and requirements of DTC. Those interests held through Euroclear or Clearstream may also be subject to the procedures and requirements of such systems. The laws of some states require that certain Persons take physical delivery in definitive form of securities that they own. Consequently, the ability to transfer beneficial interests in a Global Note to such Persons will be limited to that extent. Because DTC can act only on behalf of the Participants, which in turn act on behalf of the Indirect Participants, the ability of a Person having beneficial interests in a Global Note to pledge such interests to Persons that do not participate in the DTC system, or otherwise take actions in respect of such interests, may be affected by the lack of a physical certificate evidencing such interests.

Except as described below, owners of interests in the Global Notes will not have notes registered in their names, will not receive physical delivery of notes in certificated form and will not be considered the registered owners or holders thereof under the indenture for any purpose.

Payments in respect of the principal of, premium on, if any, interest and Special Interest, if any, on, a Global Note registered in the name of DTC or its nominee will be payable to DTC in its capacity as the registered holder under the indenture. Under the terms of the indenture, the Issuers and the trustee will treat the Persons in whose names the notes, including the Global Notes, are registered as the owners of the notes for the purpose of receiving payments and for all other purposes. Consequently, neither the Issuers, the trustee nor any agent of the Issuers or the trustee has or will have any responsibility or liability for:

(1) any aspect of DTC s records or any Participant s or Indirect Participant s records relating to or payments made on account of beneficial ownership interest in the Global Notes or for maintaining, supervising or reviewing any of DTC s records or any Participant s or Indirect Participant s records relating to the beneficial ownership interests in the Global Notes; or

(2) any other matter relating to the actions and practices of DTC or any of its Participants or Indirect Participants.

DTC has advised the Issuers that its current practice, upon receipt of any payment in respect of securities such as the notes (including principal and interest), is to credit the accounts of the relevant Participants with the payment on the payment date unless DTC has reason to believe that it will not receive payment on such payment date. Each relevant Participant is credited with an amount proportionate to its beneficial ownership of an interest in the principal amount of the relevant security as shown on the records of DTC. Payments by the Participants and the Indirect Participants to the beneficial owners of notes are governed by standing instructions and customary practices and will be the responsibility of the Participants or the Indirect Participants and will not be the responsibility of DTC, the trustee or the Issuers. Neither the Issuers nor the trustee will be liable for any delay by DTC or any of the Participants or the Indirect Participants in identifying the beneficial owners of the notes, and the Issuers and the trustee may conclusively rely on and will be protected in relying on instructions from DTC or its nominee for all purposes.

Table of Contents

Transfers between the Participants will be effected in accordance with DTC s procedures, and will be settled in same-day funds, and transfers between participants in Euroclear and Clearstream will be effected in accordance with their respective rules and operating procedures.

Cross-market transfers between the Participants, on the one hand, and Euroclear or Clearstream participants, on the other hand, will be effected through DTC in accordance with DTC s rules on behalf of Euroclear or Clearstream, as the case may be, by their respective depositaries; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in such system in accordance with the rules and procedures and within the established deadlines (Brussels time) of such system. Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depositary to take action to effect final settlement on its behalf by delivering or receiving interests in the relevant Global Note in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear participants and Clearstream participants may not deliver instructions directly to the depositories for Euroclear or Clearstream.

DTC has advised the Issuers that it will take any action permitted to be taken by a holder of notes only at the direction of one or more Participants to whose account DTC has credited the interests in the Global Notes and only in respect of such portion of the aggregate principal amount of the notes as to which such Participant or Participants has or have given such direction. However, if there is an Event of Default under the notes, DTC reserves the right to exchange the Global Notes for legended notes in certificated form, and to distribute such notes to its Participants.

Although DTC, Euroclear and Clearstream have agreed to the foregoing procedures to facilitate transfers of interests in the Global Notes among participants in DTC, Euroclear and Clearstream, they are under no obligation to perform or to continue to perform such procedures, and may discontinue such procedures at any time. None of the Issuers, the trustee and any of their respective agents will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Exchange of Global Notes for Certificated Notes

A Global Note is exchangeable for Certificated Notes if:

(1) DTC (a) notifies the Issuers that it is unwilling or unable to continue as depositary for the Global Notes or (b) has ceased to be a clearing agency registered under the Exchange Act and, in either case, the Issuers fail to appoint a successor depositary;

(2) the Issuers, at their option, notify the trustee in writing that they elect to cause the issuance of the Certificated Notes; or

(3) there has occurred and is continuing a Default or Event of Default with respect to the notes.

In addition, beneficial interests in a Global Note may be exchanged for Certificated Notes upon prior written notice given to the trustee by or on behalf of DTC in accordance with the indenture. In all cases, Certificated Notes delivered in exchange for any Global Note or beneficial interests in Global Notes will be registered in the names, and issued in any approved denominations, requested by or on behalf of the depositary (in accordance with its customary procedures).

Exchange of Certificated Notes for Global Notes

Certificated Notes may not be exchanged for beneficial interests in any Global Note unless the transferor first delivers to the trustee a written certificate (in the form provided in the indenture) to the effect that such transfer will comply with the appropriate transfer restrictions applicable to such notes.

Same Day Settlement and Payment

MagnaChip will make payments in respect of the notes represented by the Global Notes (including principal, premium, if any, interest and Special Interest, if any, by wire transfer of immediately available funds to the accounts specified by DTC or its nominee. MagnaChip will make all payments of principal, premium, if any, interest and Special Interest, if any, with respect to Certificated Notes) by wire transfer of immediately available funds to the accounts specified by the holders of the Certificated Notes or, if no such account is specified, by mailing a check to each such holder s registered address. The notes represented by the Global Notes are expected to be eligible to trade in DTC s Same-Day Funds Settlement System, and any permitted secondary market trading activity in such notes will, therefore, be required by DTC to be settled in immediately available funds. MagnaChip expects that secondary trading in any Certificated Notes will also be settled in immediately available funds.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant purchasing an interest in a Global Note from a Participant will be credited, and any such crediting will be reported to the relevant Euroclear or Clearstream participant, during the securities settlement processing day (which must be a business day for Euroclear and Clearstream) immediately following the settlement date of DTC. DTC has advised MagnaChip that cash received in Euroclear or Clearstream as a result of sales of interests in a Global Note by or through a Euroclear or Clearstream participant to a Participant will be received with value on the settlement date of DTC but will be available in the relevant Euroclear or Clearstream cash account only as of the business day for Euroclear or Clearstream following DTC s settlement date.

Certain Definitions

Set forth below are certain defined terms used in the indenture. Reference is made to the indenture for a full disclosure of all defined terms used therein, as well as any other capitalized terms used herein for which no definition is provided.

2009 Registration Rights Agreement means the Registration Rights Agreement, dated as of November 9, 2009, among Parent and each of the securityholders party thereto.

2009 Warrant Agreement means the Warrant Agreement, dated as of November 9, 2009, between Parent and American Stock Transfer & Trust Company, as warrant agent.

Acquired Debt means, with respect to any specified Person:

(1) Indebtedness of any other Person existing at the time such other Person is merged with or into or became a Subsidiary of such specified Person, whether or not such Indebtedness is incurred in connection with, or in contemplation of, such other Person merging with or into, or becoming a Restricted Subsidiary of, such specified Person; and

(2) Indebtedness secured by a Lien encumbering any asset acquired by such specified Person.

Affiliate of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, control, as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise; *provided* that beneficial ownership of 10% or more of the Voting Stock of a Person will be deemed to be control. For purposes of this definition, the terms controlling, controlled by and under common control with have correlative meanings.

Table of Contents

Applicable Premium means, with respect to any note on any redemption date, the greater of:

(1) 1.0% of the principal amount of the note; or

(2) the excess of:

(a) the present value at such redemption date of (i) the redemption price of the note at April 15, 2014 (such redemption price being set forth in the table appearing above under the caption Optional Redemption), plus (ii) all required interest payments due on the note through April 15, 2014 (excluding accrued but unpaid interest to the redemption date), computed using a discount rate equal to the Treasury Rate as of such redemption date plus 50 basis points; over

(b) the principal amount of the note.

Asset Sale means:

(1) the sale, lease, conveyance or other disposition of any assets or rights by Parent or any of its Restricted Subsidiaries; *provided* that the sale, lease, conveyance or other disposition of all or substantially all of the assets of Parent and its Restricted Subsidiaries taken as a whole will be governed by the provisions of the indenture described above under the caption Repurchase at the Option of Holders Change of Control and/or the provisions described above under the caption Certain Covenants Merger, Consolidation or Sale of Assets and not by the provisions of the Asset Sale covenant; and

(2) the issuance of Equity Interests by any of Parent s Restricted Subsidiaries or the sale by Parent or any of its Restricted Subsidiaries of Equity Interests in any of Parent s Subsidiaries.

Notwithstanding the preceding, none of the following items will be deemed to be an Asset Sale:

(1) any single transaction or series of related transactions that involves assets having a Fair Market Value of less than $5.0 million;

(2) a transfer of assets between or among Parent and its Restricted Subsidiaries;

(3) an issuance of Equity Interests by a Restricted Subsidiary of Parent to Parent or to a Restricted Subsidiary of Parent;

(4) the sale, lease or other transfer of products, services or accounts receivable in the ordinary course of business and any sale or other disposition of damaged, worn-out or obsolete assets in the ordinary course of business (including the abandonment or other disposition of intellectual property that is, in the reasonable judgment of MagnaChip, no longer economically practicable to maintain or useful in the conduct of the business of Parent and its Restricted Subsidiaries taken as whole);

(5) licenses and sublicenses by Parent or any of its Restricted Subsidiaries of software or intellectual property in the ordinary course of business;

(6) any surrender or waiver of contract rights or settlement, release, recovery on or surrender of contract, tort or other claims in the ordinary course of business;

(7) the granting of Liens not prohibited by the covenant described above under the caption Liens;

(8) the sale or other disposition of cash or Cash Equivalents;

(9) any exchange of like property pursuant to Section 1031 of the Internal Revenue Code for use in a Permitted Business; and

(10) a Restricted Payment that does not violate the covenant described above under the caption Certain Covenants Restricted Payments or a Permitted Investment.

Table of Contents

Asset Sale Offer has the meaning assigned to that term in the indenture governing the notes.

Attributable Debt in respect of a sale and leaseback transaction means, at the time of determination, the present value of the obligation of the lessee for net rental payments during the remaining term of the lease included in such sale and leaseback transaction including any period for which such lease has been extended or may, at the option of the lessor, be extended. Such present value shall be calculated using a discount rate equal to the rate of interest implicit in such transaction, determined in accordance with GAAP; *provided*, *however*, that if such sale and leaseback transaction results in a Capital Lease Obligation, the amount of Indebtedness represented thereby will be determined in accordance with the definition of Capital Lease Obligation.

Beneficial Owner has the meaning assigned to such term in Rule 13d-3 and Rule 13d-5 under the Exchange Act, except that in calculating the beneficial ownership of any particular person (as that term is used in Section 13(d)(3) of the Exchange Act), such person will be deemed to have beneficial ownership of all securities that such person has the right to acquire by conversion or exercise of other securities, whether such right is currently exercisable or is exercisable only after the passage of time. The terms Beneficially Owns and Beneficially Owned have a corresponding meaning.

Board of Directors means:

(1) with respect to a corporation, the board of directors of the corporation or any committee thereof duly authorized to act on behalf of such board;

(2) with respect to a partnership, the Board of Directors of the general partner of the partnership;

(3) with respect to a limited liability company, the managing member or members or any controlling committee of managing members thereof; and

(4) with respect to any other Person, the board or committee of such Person serving a similar function.

Borrowing Base means, as of any date, an amount equal to:

(1) 85% of the face amount of all accounts receivable owned by Parent and its Restricted Subsidiaries as of the end of the most recent fiscal quarter preceding such date that were not more than 180 days past due; *plus*

(2) 50% of the book value of all inventory, net of reserves owned by Parent and its Restricted Subsidiaries as of the end of the most recent fiscal quarter preceding such date.

Capital Lease Obligation means, at the time any determination is to be made, the amount of the liability in respect of a capital lease that would at that time be required to be capitalized on a balance sheet prepared in accordance with GAAP, and the Stated Maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be prepaid by the lessee without payment of a penalty.

Capital Stock means:

(1) in the case of a corporation, corporate stock;

(2) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock;

(3) in the case of a partnership or limited liability company, partnership interests (whether general or limited) or membership interests; and

Table of Contents

(4) any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person, but excluding from all of the foregoing any debt securities convertible into Capital Stock, whether or not such debt securities include any right of participation with Capital Stock.

Cash Equivalents means:

(1) United States dollars, South Korean Won, Pound Sterling, Hong Kong dollars, New Taiwan dollars, Euros and Japanese yen;

(2) securities issued or directly and fully guaranteed or insured by the United States government, South Korean government, governments of EU member states with a S&P sovereign credit rating of A or better, the Japanese government, the Taiwan government, the Hong Kong government, or any agency or instrumentality of any such government (*provided* that the full faith and credit of any such government is pledged in support of those securities) having maturities of not more than one year from the date of acquisition;

(3) United States dollar denominated and South Korean Won denominated certificates of deposit, eurodollar time deposits and similar instruments in the United States, Hong Kong, Taiwan and Japan with maturities of one year or less from the date of acquisition, bankers acceptances with maturities not exceeding one year and overnight bank deposits, in each case, with any domestic commercial bank having capital and surplus in excess of $500.0 million and a Thomson Bank Watch Rating of B or better or a comparable rating by a comparable rating agency in the relevant jurisdiction if such Thomson Bank Watch Rating is not available;

(4) repurchase obligations with a term of not more than seven days for underlying securities of the types described in clauses (2) and (3) above entered into with any financial institution meeting the qualifications specified in clause (3) above;

(5) commercial paper having one of the two highest ratings obtainable from Moody s or S&P and, in each case, maturing within one year after the date of acquisition; and

(6) money market funds at least 95% of the assets of which constitute Cash Equivalents of the kinds described in clauses (1) through (5) of this definition; and

(7) in the case of a Foreign Subsidiary, (a) currency of the countries in which such Foreign Subsidiary conducts business, and (b) investments of the type and maturity described in clause (3) above of foreign obligors, which investments or obligors have the rating described in such clause.

Change of Control means the occurrence of any of the following:

(1) the direct or indirect sale, lease, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the properties or assets of Parent and its Subsidiaries taken as a whole to any Person (including any person (as that term is used in Section 13(d)(3) of the Exchange Act)) other than one or more of its Restricted Subsidiaries or a Principal or a Related Party of a Principal;

(2) the formal adoption of a plan relating to the liquidation or dissolution of Parent (Parent s statutory conversion into a corporation at any time prior to the consummation of the Initial Public Offering shall not be deemed a liquidation or dissolution);

(3) the consummation of any transaction (including, without limitation, any merger or consolidation), the result of which is that any Person (including any person (as defined above), other than the Principals and their Related Parties or a Permitted Group, becomes the Beneficial Owner, directly or indirectly, of more than 50% of the Voting Stock of Parent, measured by voting power rather than number of shares;

(4) the first day on which a majority of the members of the Board of Directors of Parent are not Continuing Directors; or

(5) the first day on which Parent ceases to own, directly or indirectly, 100% of the outstanding Equity Interests of MagnaChip (excluding for purposes of such calculation all director qualifying shares, if any, that are outstanding).

Change of Control Offer has the meaning assigned to that term in the indenture governing the notes.

Consolidated EBITDA means, with respect to any specified Person for any period, the Consolidated Net Income of such Person for such period *plus*, without duplication:

(1) provision for taxes based on income or profits of such Person and its Restricted Subsidiaries for such period, to the extent that such provision for taxes was deducted in computing such Consolidated Net Income; *plus*

(2) the Fixed Charges of such Person and its Restricted Subsidiaries for such period, to the extent that such Fixed Charges were deducted in computing such Consolidated Net Income; *plus*

(3) any foreign currency translation losses (including losses related to currency remeasurements of Indebtedness) of such Person and its Restricted Subsidiaries for such period, to the extent that such losses were taken into account in computing such Consolidated Net Income; *plus*

(4) all depreciation, amortization (including amortization of intangibles but excluding amortization of prepaid cash expenses that were paid in a prior period) and other non-cash charges and expenses (excluding any such non-cash charge or expense to the extent that it represents an accrual of or reserve for cash charges or expenses in any future period or amortization of a prepaid cash charge or expense that was paid in a prior period) of such Person and its Restricted Subsidiaries for such period to the extent that such depreciation, amortization and other non-cash charges or expenses were deducted in computing such Consolidated Net Income; *plus*

(5) all unusual or non-recurring charges or expenses of such Person and its Restricted Subsidiaries for such period, to the extent the same were deducted in computing such Consolidated Net Income; *plus*

(6) all restructuring and impairment charges or expenses of such Person and its Restricted Subsidiaries for such period, to the extent the same were deducted in computing such Consolidated Net Income; *plus*

(7) any increase to cost of goods sold of such Person and its Restricted Subsidiaries for such period arising out of the fresh start accounting treatment of the Reorganization; *minus*

(8) any foreign currency translation gains (including gains related to currency remeasurements of Indebtedness) of such Person and its Restricted Subsidiaries for such period, to the extent such gains were taken into account in computing such Consolidated Net Income; *minus*

(9) non-cash items increasing such Consolidated Net Income for such period, other than the accrual of revenue in the ordinary course of business,

in each case, on a consolidated basis and determined in accordance with GAAP.

Consolidated Net Income means, with respect to any specified Person for any period, the aggregate of the net income (loss) of such Person and its Restricted Subsidiaries for such period, on a consolidated basis (excluding the net income (loss) of any Unrestricted Subsidiary of such Person), determined in accordance with GAAP and without any reduction in respect of preferred stock dividends; *provided* that:

(1) all extraordinary gains (and losses) and all gains (and losses) realized in connection with any Asset Sale or the disposition of securities or the early extinguishment of Indebtedness, together with any related provision for taxes on any such gain, will be excluded;

(2) the net income (but not loss) of any Person that is not a Restricted Subsidiary of the specified Person or that is accounted for by the equity method of accounting will be included only to the extent of the amount of dividends or similar distributions paid in cash to the specified Person or a Restricted Subsidiary of the Person;

(3) for purposes of clauses (c)(1) through (c)(5) of the first paragraph of the covenant described above under the caption Restricted Payments, the net income (but not loss) of any Restricted Subsidiary will be excluded to the extent that the declaration or payment of dividends or similar distributions by that Restricted Subsidiary of that net income is not at the date of determination permitted without any prior governmental approval (that has not been obtained) or, directly or indirectly, by operation of the terms of its charter or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to that Restricted Subsidiary or its stockholders, except to the extent that a dividend or similar distribution is actually and lawfully made to such Person or to another Restricted Subsidiary of such Person that is not subject to any such restriction on dividends or similar distributions; *provided* that restrictions under the laws of South Korea or restrictions in any Credit Facilities that were permitted by the terms of the indenture to be incurred will be disregarded for purposes of this clause (3);

(4) the cumulative effect of a change in accounting principles will be excluded; and

(5) non-cash gains and losses attributable to movement in the mark-to-market valuation of Hedging Obligations pursuant to ASC 815, *Derivatives and Hedging,* formerly SFAS No. 133 will be excluded.

Continuing means, with respect to any default, Default or Event of Default, that such default, Default or Event of Default has not been cured or waived. In the case of an Event of Default under clause (6) of the Event of Default definition, such Event of Default shall no longer be continuing upon the cure or waiver of the default of the Indebtedness described therein that causes such Event of Default to occur or the rescission of the declaration of acceleration of such Indebtedness.

Continuing Directors means, as of any date of determination, any member of the Board of Directors of Parent who:

(1) was a member of such Board of Directors on the Issue Date; or

(2) was nominated for election or elected or appointed to such Board of Directors with the approval of a majority of the Continuing Directors who were members of such Board of Directors at the time of such nomination or election.

Credit Agreement means the Amended and Restated Credit Agreement, dated as of November 6, 2009, among MagnaChip, FinanceCo, Parent, the guarantors party thereto, the lenders party thereto and Wilmington Trust FSB, as Administrative Agent.

Credit Facilities means one or more indentures, purchase agreements, debt facilities or commercial paper facilities providing for the issuance of debt securities, revolving credit loans, term loans, receivables financing (including through the sale of receivables to such lenders or to special purpose entities formed to borrow from such lenders against such receivables) or letters of credit, in each case, as amended, restated, modified, renewed, refunded, replaced in any manner (whether upon or after termination or otherwise) or refinanced (including by means of sales of debt securities to institutional investors) in whole or in part from time to time.

Default means any event that is, or with the passage of time or the giving of notice or both would be, an Event of Default.

Designated Non-cash Consideration means the Fair Market Value of non-cash consideration received by Parent or a Restricted Subsidiary in connection with an Asset Sale that is so designated as Designated Non-cash Consideration pursuant to an officers certificate, setting forth the basis of such valuation, executed by Parent s chief financial officer, less the amount of cash or Cash Equivalents received in a subsequent sale of or collection on such Designated Non-cash Consideration.

Director Indemnification Agreements means indemnification agreements between Parent and the members of Parent s Board of Directors.

Disqualified Stock means any Capital Stock that, by its terms (or by the terms of any security into which it is convertible, or for which it is exchangeable, in each case, at the option of the holder of the Capital Stock), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or redeemable at the option of the holder of the Capital Stock, in whole or in part, on or prior to the date that is 91 days after the date on which the notes mature. Notwithstanding the preceding sentence, any Capital Stock that would constitute Disqualified Stock solely because the holders of the Capital Stock have the right to require Parent to repurchase such Capital Stock upon the occurrence of a change of control or an asset sale will not constitute Disqualified Stock if the terms of such Capital Stock provide that Parent may not repurchase or redeem any such Capital Stock pursuant to such provisions unless such repurchase or redemption complies with the covenant described above under the caption Certain Covenants Restricted Payments. The amount of Disqualified Stock deemed to be outstanding at any time for purposes of the indenture will be the maximum amount that Parent and its Restricted Subsidiaries may become obligated to pay upon the maturity of, or pursuant to any mandatory redemption provisions of, such Disqualified Stock, exclusive of accrued dividends.

Equity Interests means Capital Stock and all warrants, options or other rights to acquire Capital Stock (but excluding any debt security that is convertible into, or exchangeable for, Capital Stock).

Existing Indebtedness means all Indebtedness of Parent and its Restricted Subsidiaries in existence on the Issue Date, until such amounts are repaid.

Fair Market Value means the value that would be paid by a willing buyer to an unaffiliated willing seller in a transaction not involving distress or necessity of either party, determined in good faith by the Board of Directors of Parent (unless otherwise provided in the indenture).

Fixed Charge Coverage Ratio means with respect to any specified Person for any period, the ratio of the Consolidated EBITDA of such Person for such period to the Fixed Charges of such Person for such period. In the event that the specified Person or any of its Restricted Subsidiaries incurs, assumes, guarantees, repays, repurchases, redeems, defeases or otherwise discharges any Indebtedness (other than ordinary working capital borrowings) or issues, repurchases or redeems preferred stock subsequent to the commencement of the period for which the Fixed Charge Coverage Ratio is being calculated and on or prior to the date on which the event for which the calculation of the Fixed Charge Coverage Ratio is made (the Calculation Date), then the Fixed Charge Coverage Ratio will be calculated giving pro forma effect to such incurrence, assumption, Guarantee, repayment, repurchase, redemption, defeasance or other discharge of Indebtedness, or such issuance, repurchase or redemption of preferred stock, and the use of the proceeds therefrom, as if the same had occurred at the beginning of the applicable four-quarter reference period.

In addition, for purposes of calculating the Fixed Charge Coverage Ratio:

(1) acquisitions that have been made by the specified Person or any of its Restricted Subsidiaries, including through mergers or consolidations, or any Person or any of its Restricted Subsidiaries acquired by the specified Person or any of its Restricted Subsidiaries, and including all related

financing transactions and including increases in ownership of Restricted Subsidiaries, during the four-quarter reference period or subsequent to such reference period and on or prior to the Calculation Date, or that are to be made on the Calculation Date, will be given pro forma effect as if they had occurred on the first day of the four-quarter reference period, including all Pro Forma Cost Savings, as if the same had been realized at the beginning of such four-quarter period;

(2) the Consolidated EBITDA attributable to discontinued operations, as determined in accordance with GAAP, and operations or businesses (and ownership interests therein) disposed of prior to the Calculation Date, will be excluded;

(3) the Fixed Charges attributable to discontinued operations, as determined in accordance with GAAP, and operations or businesses (and ownership interests therein) disposed of prior to the Calculation Date, will be excluded, but only to the extent that the obligations giving rise to such Fixed Charges will not be obligations of the specified Person or any of its Restricted Subsidiaries following the Calculation Date;

(4) any Person that is a Restricted Subsidiary on the Calculation Date will be deemed to have been a Restricted Subsidiary at all times during such four-quarter period;

(5) any Person that is not a Restricted Subsidiary on the Calculation Date will be deemed not to have been a Restricted Subsidiary at any time during such four-quarter period;

(6) if any Indebtedness bears a floating rate of interest, the interest expense on such Indebtedness will be calculated as if the rate in effect on the Calculation Date had been the applicable rate for the entire period (taking into account any Hedging Obligation applicable to such Indebtedness if such Hedging Obligation has a remaining term as at the Calculation Date in excess of 12 months); and

(7) in the case of any four-quarter reference period that includes any period of time prior to the consummation of the Reorganization, pro forma effect shall be given to the Reorganization as if the same had occurred at the beginning of such four-quarter period.

Fixed Charges means, with respect to any specified Person for any period, the sum, without duplication, of:

(1) the consolidated interest expense of such Person and its Restricted Subsidiaries for such period, whether paid or accrued, including, without limitation, amortization of debt issuance costs and original issue discount, non-cash interest payments, the interest component of any deferred payment obligations, the interest component of all payments associated with Capital Lease Obligations, imputed interest with respect to Attributable Debt, commissions, discounts and other fees and charges incurred in respect of letter of credit or bankers acceptance financings, and net of the effect of all payments made or received pursuant to Hedging Obligations in respect of interest rates; *plus*

(2) the consolidated interest expense of such Person and its Restricted Subsidiaries that was capitalized during such period; *plus*

(3) any interest on Indebtedness of another Person that is guaranteed by such Person or one of its Restricted Subsidiaries or secured by a Lien on assets of such Person or one of its Restricted Subsidiaries, whether or not such Guarantee or Lien is called upon; *plus*

(4) the product of (a) all dividends, whether paid or accrued and whether or not in cash, on any series of preferred stock of such Person or any of its Restricted Subsidiaries, other than dividends on Equity Interests payable solely in Equity Interests of Parent (other than Disqualified Stock) or to Parent or a Restricted Subsidiary of Parent, *times* (b) a fraction, the numerator of which is one and the denominator of which is one minus the then current combined federal, state and local statutory tax rate of such Person, expressed as a decimal, in each case, determined on a consolidated basis in accordance with GAAP.

Table of Contents

Foreign Subsidiary means any Restricted Subsidiary that is not formed under the laws of the United States or any state of the United States or the District of Columbia.

GAAP means United States generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as have been approved by a significant segment of the accounting profession in the United States, which are in effect from time to time.

Government Securities means direct obligations of, or obligations guaranteed by, the United States of America (including any agency or instrumentality thereof) for the payment of which obligations or guarantees the full faith and credit of the United States of America is pledged and which are not callable or redeemable at the issuer s option.

Guarantee means a guarantee other than by endorsement of negotiable instruments for collection in the ordinary course of business, direct or indirect, in any manner including, without limitation, by way of a pledge of assets or through letters of credit or reimbursement agreements in respect thereof, of all or any part of any Indebtedness (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take or pay or to maintain financial statement conditions or otherwise).

Guarantors means Parent and any Restricted Subsidiary of Parent (other than the Issuers) that executes a Note Guarantee in accordance with the provisions of the indenture, and their respective successors and assigns, in each case, until the Note Guarantee of such Person has been released in accordance with the provisions of the indenture.

Hedging Obligations means, with respect to any specified Person, the obligations of such Person under:

(1) interest rate swap agreements (whether from fixed to floating or from floating to fixed), interest rate cap agreements and interest rate collar agreements;

(2) other agreements or arrangements designed to manage interest rates or interest rate risk; and

(3) other agreements or arrangements designed to protect such Person against fluctuations in currency exchange rates or commodity prices.

Immaterial Subsidiary means, as of any date, any Restricted Subsidiary whose total assets, as of that date, are less than $500,000 and whose total revenues for the most recent twelve-month period do not exceed $500,000; *provided* that a Restricted Subsidiary will not be considered to be an Immaterial Subsidiary if it, directly or indirectly, Guarantees any Indebtedness of Parent.

Indebtedness means, with respect to any specified Person, any indebtedness of such Person (excluding accrued expenses and trade payables), whether or not contingent:

(1) in respect of borrowed money;

(2) evidenced by bonds, notes, debentures or similar instruments or letters of credit (or reimbursement agreements in respect thereof);

(3) in respect of banker s acceptances;

(4) representing Capital Lease Obligations or Attributable Debt in respect of sale and leaseback transactions;

(5) representing the balance deferred and unpaid of the purchase price of any property or services due more than six months after such property is acquired or such services are completed; or

(6) representing any Hedging Obligations,

if and to the extent any of the preceding items (other than letters of credit, Attributable Debt and Hedging Obligations) would appear as a liability upon a balance sheet of the specified Person prepared in accordance with GAAP. In addition, the term Indebtedness includes all Indebtedness of others secured by a Lien on any asset of the specified Person (whether or not such Indebtedness is assumed by the specified Person) and, to the extent not otherwise included, the Guarantee by the specified Person of any Indebtedness of any other Person. Indebtedness shall be calculated without giving effect to the effects of Statement of Financial Accounting Standards No. 133 and related interpretations to the extent such effects would otherwise increase or decrease an amount of Indebtedness for any purpose under the indenture as a result of accounting for any embedded derivatives created by the terms of such Indebtedness.

Initial Public Offering means the first public sale of Qualifying Equity Interests of Parent in an offering that is registered under the Securities Act that is consummated after the Issue Date.

Investments means, with respect to any Person, all direct or indirect investments by such Person in other Persons (including Affiliates) in the forms of loans (including Guarantees or other obligations), advances or capital contributions (excluding commission, travel and similar advances to officers and employees made in the ordinary course of business), purchases or other acquisitions for consideration of Indebtedness, Equity Interests or other securities, together with all items that are or would be classified as investments on a balance sheet prepared in accordance with GAAP. If Parent or any Restricted Subsidiary of Parent sells or otherwise disposes of any Equity Interests of any direct or indirect Restricted Subsidiary of Parent such that, after giving effect to any such sale or disposition, such Person is no longer a Restricted Subsidiary of Parent, Parent will be deemed to have made an Investment on the date of any such sale or disposition equal to the Fair Market Value of Parent s Investments in such Subsidiary that were not sold or disposed of in an amount determined as provided in the final paragraph of the covenant described above under the caption Certain Covenants Restricted Payments. The acquisition by Parent or any Restricted Subsidiary of Parent of a Person that holds an Investment in a third Person will be deemed to be an Investment by Parent or such Restricted Subsidiary in such third Person in an amount equal to the Fair Market Value of the Investments held by the acquired Person in such third Person in an amount determined as provided in the final paragraph of the covenant described above under the caption Certain Covenants Restricted Payments. Except as otherwise provided in the indenture, the amount of an Investment will be determined at the time the Investment is made and without giving effect to subsequent changes in value.

Issue Date means April 9, 2010.

Lien means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset, whether or not filed, recorded or otherwise perfected under applicable law, including any conditional sale or other title retention agreement, any lease in the nature thereof, any option or other agreement to sell or give a security interest in and any filing of or agreement to give any financing statement under the Uniform Commercial Code (or equivalent statutes) of any jurisdiction.

MagnaChip China Subsidiaries means MagnaChip Semiconductor (Shanghai) Company Limited and all other Subsidiaries of Parent at any time organized under the laws of the People s Republic of China.

MagnaChip Korea means MagnaChip Semiconductor, Ltd.

Moody s means Moody s Investors Service, Inc.

198

Net Proceeds means the aggregate cash proceeds and Cash Equivalents received by Parent or any of its Restricted Subsidiaries in respect of any Asset Sale (including, without limitation, any cash or Cash Equivalents received upon the sale or other disposition of any non-cash consideration received in any Asset Sale), net of the direct costs relating to such Asset Sale, including, without limitation, legal, accounting and investment banking fees, and sales commissions, and any relocation expenses incurred as a result of the Asset Sale, taxes paid or payable as a result of the Asset Sale, in each case, after taking into account any available tax credits or deductions and any tax sharing arrangements, and any reserve for adjustment or indemnification obligations in respect of the sale price of such asset or assets established in accordance with GAAP.

Non-Recourse Debt means Indebtedness:

(1) as to which neither Parent nor any of its Restricted Subsidiaries (a) provides credit support of any kind (including any undertaking, agreement or instrument that would constitute Indebtedness) or (b) is directly or indirectly liable as a guarantor or otherwise; and

(2) as to which the lenders have been notified in writing that they will not have any recourse to the stock or assets of Parent or any of its Restricted Subsidiaries (other than the Equity Interests of an Unrestricted Subsidiary).

Note Guarantee means the Guarantee by each Guarantor of the Issuers obligations under the indenture and the notes, executed pursuant to the provisions of the indenture.

Obligations means any principal, interest, penalties, fees, indemnifications, reimbursements, damages and other liabilities payable under the documentation governing any Indebtedness.

Parent means MagnaChip Semiconductor LLC, the direct parent company of MagnaChip, and any successor thereto.

Pari Passu Indebtedness means any Indebtedness of either Issuer or any Guarantor other than unsecured Indebtedness that:

(1) is contractually subordinated to the prior payment in full in cash of the notes, the guarantees and all related Obligations under the Indenture (including interest accruing after the commencement of a bankruptcy or insolvency proceeding, whether or not such interest constitutes an allowable claim) on terms customary for high yield securities as of the date of incurrence of such Indebtedness; and

(2) has a longer Weighted Average Life to Maturity than the remaining Weighted Average Life to Maturity of the notes as of the date of such incurrence.

Permitted Business means the businesses of MagnaChip, its direct and indirect parents, and their respective subsidiaries as of the Issue Date and any other business ancillary, supplementary or complementary to the semiconductor business, as determined in good faith by Parent s Board of Directors.

Permitted Group means any group of investors that is deemed to be a person (as that term is used in Section 13(d)(3) of the Exchange Act); *provided* that at least a majority of the shares of Voting Stock Beneficially Owned by such group of investors are Beneficially Owned by the Principals and their Related Parties. For purposes of this definition, shares Beneficially Owned by one person will not be attributed to any other Person solely by virtue of being part of the same group of investors for purposes of Section 13(d)(3).

Permitted Investments means:

(1) any Investment in Parent or in a Restricted Subsidiary of Parent;

(2) any Investment in Cash Equivalents;

(3) any Investment by Parent or any Restricted Subsidiary of Parent in a Person that is not a Restricted Subsidiary, if as a result of such Investment:

(a) such Person becomes a Restricted Subsidiary of Parent; or

(b) such Person is merged, consolidated or amalgamated with or into, or transfers or conveys substantially all of its assets to, or is liquidated into, Parent or a Restricted Subsidiary of Parent;

(4) any Investment made as a result of the receipt of non-cash consideration from an Asset Sale that was made pursuant to and in compliance with the covenant described above under the caption Repurchase at the Option of Holders Asset Sales;

(5) any acquisition of assets or Capital Stock solely in exchange for the issuance of Equity Interests (other than Disqualified Stock) of Parent;

(6) any Investments received in compromise or resolution of (A) obligations of trade creditors or customers that were incurred in the ordinary course of business of Parent or any of its Restricted Subsidiaries, including pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of any trade creditor or customer; or (B) litigation, arbitration or other disputes;

(7) Investments represented by Hedging Obligations;

(8) loans or advances to employees made in the ordinary course of business of Parent or any Restricted Subsidiary of Parent in an aggregate principal amount not to exceed $5.0 million at any one time outstanding;

(9) repurchases of the notes;

(10) (a) advances to customers in the ordinary course of business that are recorded as accounts receivable on the consolidated balance sheet of such Person and (b) payroll, travel and similar advances to cover matters that are expected at the time of the advances ultimately to be treated as expenses for accounting purposes and that are made in the ordinary course of business;

(11) any guarantee of Indebtedness permitted to be incurred by the covenant entitled Certain Covenants Incurrence of Indebtedness and Issuance of Preferred Stock other than a guarantee of Indebtedness of an Affiliate of Parent that is not a Restricted Subsidiary of Parent;

(12) any Investment existing on, or made pursuant to binding commitments existing on, the Issue Date and any Investment consisting of an extension, modification or renewal of any Investment existing on, or made pursuant to a binding commitment existing on, the Issue Date; *provided* that the amount of any such Investment may be increased (a) as required by the terms of such Investment as in existence on the Issue Date or (b) as otherwise permitted under the indenture;

(13) Investments in any Person to the extent such Investments consist of prepaid expenses, negotiable instruments held for collection and lease, utility and workers compensation, performance and other similar deposits made in the ordinary course of business by Parent or any Restricted Subsidiary;

(14) Investments acquired after the Issue Date as a result of the acquisition by Parent or any Restricted Subsidiary of Parent of another Person, including by way of a merger, amalgamation or consolidation with or into Parent or any of its Restricted Subsidiaries in a transaction that is not prohibited by the covenant described above under the caption Merger, Consolidation or Sale of Assets after the Issue Date to the extent that such Investments were not made in contemplation of such acquisition, merger, amalgamation or consolidation and were in existence on the date of such acquisition, merger, amalgamation or consolidation; and

Table of Contents

(15) other Investments in any Person having an aggregate Fair Market Value (measured on the date each such Investment was made and without giving effect to subsequent changes in value), when taken together with all other Investments made pursuant to this clause (15) that are at the time outstanding not to exceed the greater of (a) $25.0 million or (b) 5% of Total Assets as of the date of such Investment.

Permitted Liens means:

(1) Liens on assets of Parent or any of its Restricted Subsidiaries securing Indebtedness and other Obligations under Credit Facilities that was permitted by the terms of the indenture to be incurred pursuant to clauses (1) or (16) of the definition of Permitted Debt and/or securing Hedging Obligations and/or Obligations with regard to Treasury Management Arrangements;

(2) Liens in favor of the Issuers or the Guarantors;

(3) Liens on property of a Person existing at the time such Person becomes a Restricted Subsidiary of Parent or is merged with or into or consolidated with Parent or any Restricted Subsidiary of Parent; *provided* that such Liens were in existence prior to the contemplation of such Person becoming a Restricted Subsidiary of Parent or such merger or consolidation and do not extend to any assets other than those of the Person that becomes a Restricted Subsidiary of Parent or is merged with or into or consolidated with Parent or any Restricted Subsidiary of Parent;

(4) Liens on property (including Capital Stock) existing at the time of acquisition of the property by Parent or any Restricted Subsidiary of Parent; *provided* that such Liens were in existence prior to such acquisition and not incurred in contemplation of, such acquisition;

(5) Liens or deposits made in the ordinary course of business to secure the performance of tenders, bids, leases, contracts (except those related to borrowed money), statutory obligations, insurance, surety or appeal bonds, workers compensation obligations, performance bonds or other obligations of a like nature (including Liens to secure letters of credit issued to assure payment of such obligations) or arising as a result of progress payments under government contracts;

(6) Liens to secure Indebtedness (including Capital Lease Obligations) permitted by clause (4) of the second paragraph of the covenant entitled Certain Covenants Incurrence of Indebtedness and Issuance of Preferred Stock covering only the assets acquired with or financed by such Indebtedness;

(7) Liens existing on the Issue Date;

(8) Liens for taxes, assessments or governmental charges or claims that are not yet delinquent or that are being contested in good faith by appropriate proceedings promptly instituted and diligently concluded; *provided* that any reserve or other appropriate provision as is required in conformity with GAAP has been made therefor;

(9) Liens imposed by law, such as carriers , warehousemen s, landlord s, mechanics , materialmen s, repairmen s, suppliers or similar Liens, in each case, incurred in the ordinary course of business;

(10) survey exceptions, easements or reservations of, or rights of others for, licenses, rights-of-way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning or other restrictions as to the use of real property that were not incurred in connection with Indebtedness and that do not in the aggregate materially adversely affect the value of said properties or materially impair their use in the operation of the business of such Person;

(11) Liens created for the benefit of (or to secure) the notes (or the Note Guarantees);

(12) Liens to secure any Permitted Refinancing Indebtedness permitted to be incurred under the indenture; *provided*, *however*, that:

(a) the new Lien is limited to all or part of the same property and assets that secured or, under the written agreements pursuant to which the original Lien arose, could secure the original Lien (plus improvements and accessions to, such property or proceeds or distributions thereof); and

(b) the Indebtedness secured by the new Lien is not increased to any amount greater than the sum of (x) the outstanding principal amount, or, if greater, committed amount, of the Indebtedness renewed, refunded, refinanced, replaced, defeased or discharged with such Permitted Refinancing Indebtedness and (y) an amount necessary to pay any fees and expenses, including premiums, related to such renewal, refunding, refinancing, replacement, defeasance or discharge;

(13) Liens on insurance policies and proceeds thereof, or other deposits, to secure insurance premium financings;

(14) filing of Uniform Commercial Code financing statements as a precautionary measure in connection with operating leases;

(15) bankers Liens, rights of setoff, Liens arising out of judgments or awards not constituting an Event of Default and notices of *lis pendens* and associated rights related to litigation being contested in good faith by appropriate proceedings and for which adequate reserves have been made;

(16) Liens on cash, Cash Equivalents or other property arising in connection with the defeasance, discharge or redemption of Indebtedness;

(17) Liens on specific items of inventory or other goods (and the proceeds thereof) of any Person securing such Person s obligations in respect of bankers acceptances issued or created in the ordinary course of business for the account of such Person to facilitate the purchase, shipment or storage of such inventory or other goods;

(18) grants of software and other technology licenses in the ordinary course of business;

(19) leases or subleases granted in the ordinary course of business to third Persons not materially interfering with the business of Parent and its Restricted Subsidiaries taken as a whole;

(20) Liens arising out of conditional sale, title retention, consignment or similar arrangements for the sale of goods entered into in the ordinary course of business;

(21) Liens in favor of customs and revenue authorities to secure payment of customs duties in connection with the importation of goods in the ordinary course of business and other similar Liens arising in the ordinary course of business;

(22) Liens in connection with escrow deposits made in connection with any acquisition of assets; and

(23) Liens incurred in the ordinary course of business of Parent or any Restricted Subsidiary of Parent with respect to obligations that do not exceed $10.0 million at any one time outstanding.

Permitted Refinancing Indebtedness means any Indebtedness of Parent or any of its Restricted Subsidiaries issued in exchange for, or the net proceeds of which are used to renew, refund, refinance, replace, defease or discharge other Indebtedness of Parent or any of its Restricted Subsidiaries (other than intercompany Indebtedness); *provided* that:

(1) the principal amount (or accreted value, if applicable) of such Permitted Refinancing Indebtedness does not exceed the principal amount (or accreted value, if applicable) of the Indebtedness renewed, refunded, refinanced, replaced, defeased or discharged (plus all accrued interest on the Indebtedness and the amount of all fees and expenses, including premiums, incurred in connection therewith);

Table of Contents

(2) such Permitted Refinancing Indebtedness has a final maturity date later than the final maturity date of, and has a Weighted Average Life to Maturity that is (a) equal to or greater than the Weighted Average Life to Maturity of, the Indebtedness being renewed, refunded, refinanced, replaced, defeased or discharged or (b) more than 90 days after the final maturity date of the notes;

(3) if the Indebtedness being renewed, refunded, refinanced, replaced, defeased or discharged is subordinated in right of payment to the notes, such Permitted Refinancing Indebtedness is subordinated in right of payment to the notes on terms at least as favorable to the holders of notes as those contained in the documentation governing the Indebtedness being renewed, refunded, refinanced, replaced, defeased or discharged; and

(4) such Indebtedness is incurred either by Parent or by the Restricted Subsidiary of Parent that was the obligor on the Indebtedness being renewed, refunded, refinanced, replaced, defeased or discharged and is guaranteed only by Persons who were obligors on the Indebtedness being renewed, refunded, refinanced, replaced, defeased or discharged.

Permitted Tax Payments means, for so long as Parent is treated as a partnership for U.S. federal income tax purposes, payments by Parent to direct owners of Parent s equity interests in respect of tax liabilities of Parent s investors arising from direct or indirect ownership of Parent s equity interests under Section 951 of the Code. Permitted Tax Payments shall be calculated by reference to the amount of Parent s and its Subsidiaries income determined to be an amount required to be included in income under section 951 of the Code times .35. A nationally recognized accounting firm chosen by Parent shall determine the amount of Permitted Tax Payments.

Person means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, limited liability company or government or other entity.

Principals means Avenue International Master, L.P., Avenue Investments, L.P., Avenue Special Situations Fund IV, L.P., Avenue Special Situations Fund V, L.P. and Avenue CDP-Global Opportunities Fund, L.P.

Pro Forma Cost Savings means, with respect to any four-quarter period, the reduction in net costs and expenses that:

(1) were directly attributable to an acquisition, Investment, disposition, merger, consolidation or discontinued operation or other specified action that occurred during the four-quarter period or after the end of the four-quarter period and on or prior to the Calculation Date and that would properly be reflected in a pro forma income statement prepared in accordance with Regulation S-X under the Securities Act, as then in effect;

(2) were actually implemented prior to the Calculation Date in connection with or as a result of an acquisition, Investment, disposition, merger, consolidation or discontinued operation or other specified action and that are supportable and quantifiable by the underlying accounting records; or

(3) relate to an acquisition, Investment, disposition, merger, consolidation or discontinued operation or other specified action and that Parent reasonably determines are probable based upon specifically identifiable actions to be taken within six months of the date of the closing of the acquisition, Investment, disposition, merger, consolidation or discontinued operation or specified action;

provided that in each case contemplated by clause (3), to the extent such reductions in cost and expense are described in an officers certificate signed by the chief financial officer of Parent and delivered to the trustee, which officers certificate outlines the specific actions taken or to be taken, the net reductions in cost and expenses achieved or to be achieved from each such action and states that Parent s chief financial officers has determined that such cost and expense savings are probable.

Table of Contents

Qualifying Equity Interests means Equity Interests of Parent other than Disqualified Stock.

Qualifying Equity Offering means a public sale either (1) of Equity Interests of Parent by Parent (other than Disqualified Stock and other than to a Subsidiary of Parent and other than Equity Interests sold in the Initial Public Offering) or (2) of Equity Interests of a direct or indirect parent entity of Parent (other than to Parent or a Subsidiary of Parent) to the extent that the net proceeds therefrom are contributed to the common equity capital of Parent.

Related Party means:

(1) any controlling person, limited partner, majority owned Subsidiary, or immediate family member (in the case of an individual) of any Principal; or

(2) any trust, corporation, partnership, limited liability company or other entity, the beneficiaries, stockholders, partners, members, owners or Persons beneficially holding a majority (and controlling) interest of which consist of any one or more Principals and/or such other Persons referred to in the immediately preceding clause (1).

Reorganization means the plan of reorganization that was adopted and became effective on November 9, 2009 in the bankruptcy proceeding under Chapter 11 of the U.S. Bankruptcy Code in which Parent and certain of its Subsidiaries were debtors.

Restricted Investment means an Investment other than a Permitted Investment.

Restricted Subsidiary of a Person means any Subsidiary of the referent Person that is not an Unrestricted Subsidiary. Unless otherwise indicated in this Description of Notes, all references to Restricted Subsidiaries shall mean Restricted Subsidiaries of Parent, including the Issuers.

S&P means Standard & Poor s Ratings Group.

Securities Act means the Securities Act of 1933, as amended.

Significant Subsidiary means any Restricted Subsidiary that would be a significant subsidiary as defined in Article 1, Rule 1-02 of Regulation S-X, promulgated pursuant to the Securities Act, as such Regulation is in effect on the Issue Date.

Special Interest has the meaning assigned to that term pursuant to the notes registration rights agreement.

Stated Maturity means, with respect to any installment of interest or principal on any series of Indebtedness, the date on which the payment of interest or principal was scheduled to be paid in the documentation governing such Indebtedness as of the Issue Date, and will not include any contingent obligations to repay, redeem or repurchase any such interest or principal prior to the date originally scheduled for the payment thereof.

Subsidiary means, with respect to any specified Person:

(1) any corporation, association or other business entity of which more than 50% of the total voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency and after giving effect to any voting agreement or stockholders agreement that effectively transfers voting power) to vote in the election of directors, managers or trustees of the corporation, association or other business entity is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person (or a combination thereof); and

Table of Contents

(2) any partnership or limited liability company of which (a) more than 50% of the capital accounts, distribution rights, total equity and voting interests or general and limited partnership interests, as applicable, are owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of that Person or a combination thereof, whether in the form of membership, general, special or limited partnership interests or otherwise, and (b) such Person or any Subsidiary of such Person is a controlling general partner or otherwise controls such entity.

Total Assets means, as of any date, the total consolidated assets of Parent and its Subsidiaries as of the most recent date for which internal financial statements are available as of that date, calculated in accordance with GAAP.

Treasury Management Arrangement means any agreement or other arrangement governing the provision of treasury or cash management services, including deposit accounts, overdraft, credit or debit card, funds transfer, automated clearinghouse, zero balance accounts, returned check concentration, controlled disbursement, lockbox, account reconciliation and reporting and trade finance services and other cash management services.

Treasury Rate means, as of any redemption date, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two business days prior to the redemption date (or, if such Statistical Release is no longer published, any publicly available source of similar market data)) most nearly equal to the period from the redemption date to April 15, 2014; *provided*, *however*, that if the period from the redemption date to April 15, 2014, is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used.

Unrestricted Subsidiary means any Subsidiary of Parent that is designated by the Board of Directors of Parent as an Unrestricted Subsidiary pursuant to a resolution of the Board of Directors of Parent, but only to the extent that such Subsidiary:

(1) has no Indebtedness other than Non-Recourse Debt;

(2) except as permitted by the covenant described above under the caption Certain Covenants Transactions with Affiliates, is not party to any agreement, contract, arrangement or understanding with Parent or any Restricted Subsidiary of Parent unless the terms of any such agreement, contract, arrangement or understanding are no less favorable to Parent or such Restricted Subsidiary than those that might be obtained at the time from Persons who are not Affiliates of Parent;

(3) is a Person with respect to which neither Parent nor any of its Restricted Subsidiaries has any direct or indirect obligation (a) to subscribe for additional Equity Interests or (b) to maintain or preserve such Person s financial condition or to cause such Person to achieve any specified levels of operating results; and

(4) has not guaranteed or otherwise directly or indirectly provided credit support for any Indebtedness of Parent or any of its Restricted Subsidiaries; *provided*, *however*, that Parent and its Restricted Subsidiaries may Guarantee the performance of Unrestricted Subsidiaries in the ordinary course of business except for Guarantees of Indebtedness.

Voting Stock of any specified Person as of any date means the Capital Stock of such Person that is at the time entitled to vote in the election of the Board of Directors of such Person.

Table of Contents

Weighted Average Life to Maturity means, when applied to any Indebtedness at any date, the number of years obtained by dividing:

(1) the sum of the products obtained by multiplying (a) the amount of each then remaining installment, sinking fund, serial maturity or other required payments of principal, including payment at final maturity, in respect of the Indebtedness, by (b) the number of years (calculated to the nearest one-twelfth) that will elapse between such date and the making of such payment; by

(2) the then outstanding principal amount of such Indebtedness.

CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

The following discussion is a summary of certain U.S. federal income tax considerations relevant to the purchase, ownership and disposition of the notes by a U.S. holder (defined below), but does not purport to be a complete analysis of all potential tax effects. This summary is based upon the U.S. Internal Revenue Code of 1986, as amended (the Code), Treasury regulations issued thereunder, and judicial and administrative interpretations thereof, each as in effect on the date hereof, and all of which are subject to change, possibly with retroactive effect. No rulings from the Internal Revenue Service (IRS) have been or are expected to be sought with respect to the matters discussed below. There can be no assurance that the IRS will not take a different position concerning the tax consequences of the purchase, ownership or disposition of the notes or that any such position would not be sustained.

This discussion does not address all of the U.S. federal income tax considerations that may be relevant to a holder in light of such holder s particular circumstances or to holders subject to special rules, such as financial institutions, U.S. expatriates, insurance companies, dealers in securities or currencies, traders in securities, U.S. holders whose functional currency is not the U.S. dollar, tax exempt organizations, regulated investment companies, real estate investment trusts, partnerships or other pass through entities (or investors in such entities), persons liable for alternative minimum tax and persons holding the notes as part of a straddle, hedge, conversion transaction or other integrated transaction. In addition, this discussion is limited to persons who hold the notes as capital assets within the meaning of section 1221 of the Code.

For purposes of this discussion, a U.S. holder is a beneficial owner of a note that is, for U.S. federal income tax purposes, (i) an individual who is a citizen or resident of the United States; (ii) a corporation or any entity taxable as a corporation created or organized in the United States or under the laws of the United States, any state thereof or the District of Columbia; (iii) any estate the income of which is subject to U.S. federal income taxation regardless of its source; or (iv) any trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or if a valid election is in place to treat the trust as a U.S. person. If any entity treated as a partnership for U.S. federal income tax purposes holds the notes, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. A holder that is a partnership, and partners in such partnerships, should consult their tax advisors regarding the tax consequences of the purchase, ownership and disposition of the notes.

Prospective purchasers of the notes should consult their tax advisors concerning the tax consequences of holding notes in light of their particular circumstances, including the application of the U.S. federal income tax considerations discussed below, as well as the application of U.S. federal estate and gift tax laws and state, local, foreign or other tax laws.

Characterization of the Notes

In certain circumstances (see Description of Notes Optional Redemption, Description of Notes Repurchase at the Option of Holders Change of Control, and Description of Notes Additional Amounts) we may be obligated to make payments on the notes in excess of stated principal and interest. We intend to take the position that the foregoing contingencies should not cause the notes to be treated as contingent payment debt instruments. Assuming such position is respected, a U.S. holder would be required to include in income the amount of any such additional payments at the time such payments are received or accrued in accordance with such U.S. holder s method of accounting for U.S. federal income tax purposes. Our position is binding on a holder, unless the holder discloses in the proper manner to the IRS that it is taking a different position. If the IRS successfully

challenged this position, and the notes were treated as contingent payment debt instruments, U.S. holders could be required to accrue interest income at a rate higher than their yield to maturity and to treat as ordinary income, rather than capital gain, any gain recognized on a sale, exchange, retirement or redemption of a note. This disclosure assumes that the notes will not be considered contingent payment debt instruments. U.S. holders are urged to consult their tax advisors regarding the potential application to the notes of the contingent payment debt instrument rules and the consequences thereof.

Payments of Interest

Payments of stated interest and Additional Amounts on the notes generally will be taxable to a U.S. holder as ordinary income at the time that such payments are received or accrued, in accordance with such U.S. holder s method of accounting for U.S. federal income tax purposes.

Foreign Tax Credit

Interest income on a note generally will constitute foreign source income and generally will be considered passive category income or, in the case of certain U.S. holders, general category income in computing the foreign tax credit allowable to U.S. holders under U.S. federal income tax laws. Withholding taxes, if any, may be eligible for foreign tax credits (or deduction in lieu of such credits) for U.S. federal income tax purposes, subject to applicable limitations.

Market Discount

A U.S. holder who buys a note for less than its stated redemption price at maturity generally will be considered to have purchased the note at a market discount. If the market discount is less than 0.25% of the stated redemption price of the note at maturity multiplied by the number of complete years to maturity, then the market discount will be deemed to be zero. A U.S. holder may elect to include market discount in income currently as it accrues. Any such election will apply to all market discount bonds acquired during or after the year for which the election is made, and the election may be terminated only with the consent of the Internal Revenue Service. If a U.S. holder does not make an election to include market discount in income currently as it accrues, any principal amount received or gain realized by a U.S. holder on the sale, exchange, retirement or other taxable disposition of a note will be treated as ordinary income to the extent of any accrued market discount on the note. Unless a U.S. holder irrevocably elects to accrue market discount under a constant-interest method, accrued market discount is the total market discount multiplied by a fraction, the numerator of which is the number of days the U.S. holder has held the note and the denominator of which is the number of days from the date the holder acquired the note until its maturity. A U.S. holder may be required to defer a portion of such holder s interest deductions for the taxable year attributable to any indebtedness incurred or continued to purchase or carry a note purchased with market discount. Any such deferred interest expense may not exceed the market discount that accrues during a taxable year and is, in general, allowed as a deduction not later than the year in which the market discount is includible in income. This interest expense deferral will not apply if a U.S. holder makes an election to include market discount in income currently as it accrues.

Market Premium

A U.S. holder who buys a note for more than its stated redemption price at maturity generally will be considered to have purchased the note at a market premium. If an election is made, the market premium may generally be amortized using a constant yield method, over the remaining term of the note. Interest otherwise required to be included in income with respect to the note during any tax year may be offset by the amount of any amortized market premium. An election to amortize market premium will apply to all market premium bonds acquired during or after the year for which the election is made, and the election may be terminated only with the consent of the Internal Revenue Service.

Sale, Exchange, Redemption, Retirement or other Taxable Disposition of Notes

Generally, upon the sale, exchange, redemption, retirement or other taxable disposition of a note, a U.S. holder will recognize taxable gain or loss equal to the difference between the amount realized on the disposition (less any amount attributable to accrued but unpaid interest not previously included in income, which will be taxable as such) and such U.S. holder s adjusted tax basis in the note. A U.S. holder s adjusted tax basis in a note will generally equal the cost of such note to such U.S. holder. Gain or loss recognized upon the sale, exchange, redemption, retirement or other taxable disposition of a note generally will be U.S. source gain or loss and generally will be capital gain or loss and will be long-term capital gain or loss if at the time of the sale, exchange, redemption, retirement or other disposition the note has been held by such U.S. holder for more than one year. Long-term capital gain realized by a non-corporate U.S. holder will generally be subject to taxation at a reduced rate. The deductibility of capital losses is subject to limitation.

Information Reporting and Backup Withholding

In general, payments of interest and the proceeds from sales or other dispositions (including retirements or redemptions) of notes held by a U.S. holder may be required to be reported to the IRS unless the U.S. holder is a corporation or other exempt recipient and, when required, demonstrates this fact. In addition, a U.S. holder that is not an exempt recipient may be subject to backup withholding unless it provides a taxpayer identification number and otherwise complies with applicable certification requirements.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against a holder s U.S. federal income tax liability and may entitle the holder to a refund, provided that the appropriate information is timely furnished to the IRS.

Surtax on Certain Net Investment Income.

On March 30, 2010, new legislation was enacted that requires certain U.S. holders who are individuals, estates or trusts to pay an additional 3.8% tax on, among other things, interest on and capital gains from the sale or other disposition of notes for taxable years beginning after December 31, 2012. In addition, for taxable years beginning after March 18, 2010, new legislation requires certain U.S. holders who are individuals to report information relating to an interest in the notes, subject to certain exceptions (including an exception for notes held in accounts maintained by certain financial institutions). U.S. holders should consult their tax advisors regarding the effect, if any, of this legislation on their ownership and disposition of the notes.

Table of Contents

CERTAIN GENERAL LUXEMBOURG TAX CONSIDERATIONS

The following is a general discussion of the material Luxembourg tax consequences for your investment in and ownership and disposition of the notes. The discussion does not purport to be a comprehensive description of all tax considerations which may be relevant to your decision to purchase the notes. In particular, this discussion does not consider any specific facts or circumstances which may apply to a particular purchaser. This summary is based on the current laws or treaties (or any regulations promulgated thereunder) of Luxembourg affecting taxation and on the existing official position regarding the application, administration or interpretation of such laws, treaties or regulations (including a holding, judgment or order by a court of competent jurisdiction or a change in published practice). These laws or treaties (or any regulations promulgated thereunder) of Luxembourg affecting taxation and the existing official position regarding the application, administration or interpretation of such laws, treaties or regulations are subject to change, possibly with retroactive effect.

Prospective purchasers of notes are advised to consult their own tax advisers as to the consequences, under the tax laws of the countries of their respective citizenship, residence or domicile, of a purchase of notes, including, but not limited to, the consequence of receipt of payments under the notes and their disposal, redemption or exchange.

Tax Residency

A note holder will not become resident, or be deemed to be resident under the tax laws of Luxembourg by reason only of the holding of the notes, or the execution, performance, delivery and/or enforcement of the notes.

Withholding Tax

Under Luxembourg tax law currently in effect and with the possible exception of interest paid to certain individual note holders and to certain entities (under the Luxembourg laws dated June 21, 2005 implementing the Savings Directive and transposing the bilateral saving taxation agreements concluded between Luxembourg and the dependent or associated territories of the European Union (EU) and the provisions of the Law of December 23, 2005 as amended), there is no Luxembourg withholding tax on payments of interest (including accrued but unpaid interest).

There is also no Luxembourg withholding tax, with the possible exception of payments made to certain individual note holders and to certain entities (under the Luxembourg laws dated June 21, 2005 implementing the Savings Directive and the provisions of the Law of December 23, 2005 as amended), upon repayment of principal in case of reimbursement, redemption, repurchase or exchange of the notes.

Taxation of Luxembourg Non-residents

Under the Luxembourg laws dated June 21, 2005 implementing the Savings Directive and transposing the bilateral saving taxation agreements concluded between Luxembourg and the dependent or associated territories of the EU, a Luxembourg-based paying agent (within the meaning of the Savings Directive) is required since July 1, 2005 to withhold tax on interest and other similar income paid by it to (or under certain circumstances, to the benefit of) an individual resident in another Member State or in certain EU dependent or associated territories, unless the beneficiary of the interest payments elects for an alternative procedure to savings withholding tax, which could be exchange of information or the tax certificate procedure. The same treatment will apply to payments of interest and other similar income made to certain residual entities within the meaning of Article 4.2 of the Savings Directive established in a Member State or in certain EU dependent or associated

territories (i.e., entities which are not legal persons (the Finnish and Swedish companies listed in Article 4.5 of the Savings Directive are not considered as legal persons for this purpose), whose profits are not taxed under the general arrangements for the business taxation, that are not UCITS recognized in accordance with the Council Directive 85/611/EEC or similar collective investment funds located in Jersey, Guernsey, the Isle of Man, the Turks and Caicos Islands, the Cayman Islands, Montserrat or the British Virgin Islands and have not opted to be treated as UCITS recognized in accordance with the Council Directive 85/611/EEC).

The savings withholding tax rate is 20% increasing to 35% as from July 1, 2011. The savings withholding tax system will only apply during a transitional period, the ending of which depends on the conclusion of certain agreements relating to information exchange with certain third countries.

On November 13, 2008 the European Commission published a proposal for amendments to the Savings Directive, which included a number of suggested changes which, if implemented, would broaden the scope of the requirements described above. The European Parliament approved an amended version of this proposal on 24 April 2009. An updated draft version of the amended Savings Directive was rendered public in November 2009. If this draft would be approved in the course of 2010, the amended Savings Directive would become applicable as from January 1, 2013. Investors who are in any doubt as to their position should consult their professional advisers.

Taxation of Luxembourg residents

Interest payments made by Luxembourg paying agents (defined in a similar way as in the Savings Directive) to Luxembourg individual residents or to certain residual entities that secure interest payments on behalf of such individuals (unless such entities have opted either to be treated as UCITS recognized in accordance with the Council Directive 85/611/EC or for the exchange of information regime) are subject to a 10% final withholding tax (the 10% Luxembourg Withholding Tax).

Taxation of the Note Holders

Taxation of Luxembourg Non-Residents

Notes holders who are non-residents under the tax laws of Luxembourg and who have neither a permanent establishment nor a permanent representative in Luxembourg with which the ownership of the notes is connected are not liable to Luxembourg income tax, corporate income tax, municipal business tax or net wealth tax, whether they receive payments under the notes (including interest and principal) or realize capital gains on the disposal, redemption or exchange of the notes.

Taxation of Luxembourg Residents

Companies

Companies Benefiting from a Special Tax Regime

A Luxembourg resident note holder subject to the law of July 31,1929 as repealed on pure holding companies or to the law of February 13, 2007 on specialized investment fund or to the law of December 20, 2002 on undertakings for collective investment or to the law of May 11, 2007 on family estate management companies would not be subject to any Luxembourg corporate income tax, municipal business tax or net wealth tax in respect of payments under the notes (including interest and principal) or capital gains realized on the disposal, redemption or exchange of the notes.

Companies not Benefiting from a Special Tax Regime

A Luxembourg resident note holder subject to Article 159 of the Income Tax Law (Corporate Income Tax) and to § 2 of the *Gewebesteurgesetz* (Municipal Business Tax) and a foreign entity maintaining a permanent establishment or a permanent representative in Luxembourg would be subject to Luxembourg Corporate Income Tax and Municipal Business Tax on their worldwide income, including interest (whether accrued or paid) and capital gains realized on the disposal, redemption or exchange of the notes, unless certain items can benefit from an exemption under domestic law or tax treaties for the avoidance of double taxation. The current global effective corporate income tax rate amounts to 28.59% including corporate income tax of 21.84% and municipal business tax of 6.75% in Luxembourg-City.

A Luxembourg resident note holder subject to § 1 of the *Vermôgensteuergesetz* (Net Wealth Tax) and a foreign entity maintaining a permanent establishment or a permanent representative in Luxembourg would be subject to an annual Luxembourg net wealth tax at a rate of 0.5%. The net wealth is determined on January 1st of each year, based on the market value of all the assets as of December 31st each year less the market value of the liabilities at the same date unless certain assets can benefit from an exemption under domestic law or tax treaties for the avoidance of double taxation.

Individuals

Pursuant to the Luxembourg law of December 23, 2005 as amended by the law of July 17, 2008, Luxembourg resident individuals, acting in the course of their private wealth, can opt to self-declare and pay a 10% tax (the 10% Tax) on interest payments made after December 31, 2007 by paying agents (defined in the same way as in the Savings Directive) located in an EU Member State other than Luxembourg, a Member State of the European Economic Area or in a State or territory which has concluded an international agreement directly related to the Savings Directive. The 10% Luxembourg Withholding Tax or the 10% Tax represents the final tax liability on interest received for the Luxembourg resident individuals receiving the interest payment in the course of their private wealth and can be reduced in consideration of foreign withholding tax, based on double tax treaties concluded by Luxembourg. Individual Luxembourg resident note holders receiving the interest as business income must include this interest in their taxable basis; if applicable, the 10% Luxembourg Withholding Tax levied will be credited against their final income tax liability.

Luxembourg resident individual note holders are generally not subject to taxation on capital gains upon the disposal of the notes, unless the notes are disposed of within six months of the date of acquisition of the notes. Upon the sale, redemption or exchange of the notes, accrued but unpaid interest will be subject to the 10% Luxembourg Withholding Tax if the paying agent is a Luxembourg resident or to the 10% Tax if the paying agent is located outside Luxembourg but in the EU, in the European Economic Area or in the dependent and associated territory and the Luxembourg resident individuals opt for the 10% Tax. Individual Luxembourg resident note holders receiving the interest as business income must include the portion of the price corresponding to this interest in their taxable income; the 10% Luxembourg Withholding Tax levied will be credited against their final income tax liability.

Inheritance and Gift Tax

No gift, estate or inheritance tax is levied on the transfer of the notes upon death of a note holder where the deceased was not a resident of Luxembourg for inheritance tax purposes.

Table of Contents

Registration Duty, Stamp Duty

When the agreement is not submitted to a notary, there is no Luxembourg registration tax, stamp duty payable in Luxembourg by note holders as a consequence of the issuance of the notes, nor will any of these tax and duty be payable as a consequence of a subsequent transfer, repurchase, redemption or exchange of notes.

Value Added Tax

The purchase of income generating notes qualifies as a financing activity from a Luxembourg VAT perspective. Such financing activities are exempt from VAT in Luxembourg. Non-Luxembourg VAT consequences of the purchase of notes should be verified in consultation with a professional adviser.

If the purchaser of notes is established in Luxembourg, then such activity gives him the status of VAT taxpayer in Luxembourg.

To the extent that this financing activity with the issuer is the only activity of the purchaser, no Luxembourg VAT registration is required for this Luxembourg purchaser, unless he receives services from foreign suppliers for which he is liable to declare and pay Luxembourg VAT. In this case, the purchaser must register for VAT in Luxembourg under the simplified VAT regime, account for the Luxembourg VAT if due and has no VAT deduction right.

Table of Contents

SELLING SECURITYHOLDERS

On April 9, 2010, we issued all of the senior notes to Goldman, Sachs & Co., Barclays Capital Inc., Deutsche Bank Securities Inc., Morgan Stanley & Co. Incorporated, Citigroup Global Markets Inc., Credit Suisse Securities (USA) LLC and UBS Securities LLC, the initial purchasers of the senior notes, in transactions exempt from the registration requirements of the Securities Act. The initial purchasers then resold the senior notes to persons reasonably believed by the initial purchasers to be qualified institutional buyers within the meaning of Rule 144A under the Securities Act. Based on representations made to us by the selling securityholders, we believe that the selling securityholders purchased the senior notes in the ordinary course of business and that at the time of the purchase of the senior notes, such selling securityholders had no agreements or understandings, directly or indirectly with any person to distribute such securities. All of the senior notes were issued as restricted securities under the Securities Act. Selling securityholders may from time to time offer and sell pursuant to this prospectus any or all of the senior notes. To the extent necessary, eligible holders of the senior notes not listed in the table below, if any, will be included as additional selling securityholders in a post-effective amendment to the registration statement of which this prospectus is a part.

The following table sets forth certain information as of June 30, 2010, except where otherwise noted, concerning the principal amount of senior notes beneficially owned by each selling securityholder that may be offered from time to time by each selling securityholder with this prospectus. The information is based on information provided by or on behalf of the selling securityholders. Information about the selling securityholders may change over time. In particular, the selling securityholders identified below may have sold, transferred or otherwise disposed of all or a portion of their senior notes since the date on which they provided to us information regarding their senior notes. Any changed or new information given to us by the selling securityholders will be set forth in supplements to this prospectus or amendments to the registration statement of which the accompanying prospectus is a part, if and when necessary. The information set forth in the table below is based on information provided by or on behalf of the selling securityholders.

The amounts and percentages of senior notes beneficially owned are reported on the basis of SEC regulations governing the determination of beneficial ownership of securities. Under SEC rules, a person is deemed to be a beneficial owner of a security if that person has or shares voting power, which includes the power to vote or to direct the voting of such security, or investment power, which includes the power to dispose of or to direct the disposition of such security. A person is also deemed to be a beneficial owner of any securities of which that person has the right to acquire beneficial ownership within 60 days. Under these rules, more than one person may be deemed to be a beneficial owner of the same securities and a person may be deemed to be a beneficial owner of securities as to which he or she has no economic interest.

Name and Address of Beneficial Owner	Principal Amount of Senior Notes Beneficially Owned Prior to the Offering		Maximum Amount of Senior Notes to be Offered by By this Prospectus	Principal Amount of Senior Notes Beneficially Owned After the Offering(2)	
	Amount	% of Class(1)		Amount	% of Class(1)
Avenue Special Situations Fund V, L.P.(3)(4)(5)	$ 29,400,000	11.8%	$ 29,400,000	$ 0	*
Avenue International Master, L.P.(3)(4)(6)	$ 3,500,000	1.4%	$ 3,500,000	$ 0	*
Avenue Investments L.P.(3)(4)(7)	$ 1,400,000	*	$ 1,400,000	$ 0	*
Avenue-CDP Global Opportunities Fund, L.P.(3)(4)(8)	$ 700,000	*	$ 700,000	$ 0	*

214

* Less than one percent (1%).

(1) Applicable percentage of beneficial ownership is based on $250,000,000 in principal amount of the senior notes issued and outstanding as of June 30, 2010.

(2) Assuming that each selling securityholder sells in the offering all of such securities we have registered for it pursuant to the registration statement of which this prospectus forms a part.

(3) Affiliated with us as described in Certain Relationships and Related Transactions. As described in Management, three of our directors, Messrs. Elkins, Klein and Tan are employed by Avenue.

(4) The following entities and person are collectively referred to in this table as the Avenue Capital Group : (i) Avenue Investments, L.P. (Avenue Investments), (ii) Avenue International Master, L.P. (Avenue International Master), (iii) Avenue International, Ltd. (Avenue International), the sole limited partner of Avenue International Master, (iv) Avenue International Master GenPar, Ltd. (Avenue International GenPar), the general partner of Avenue International Master, (v) Avenue Partners, LLC (Avenue Partners), the general partner of Avenue Investments and the sole shareholder of Avenue International GenPar, (vi) Avenue-CDP Global Opportunities Fund, L.P. (CDP Global), (vii) Avenue Global Opportunities Fund GenPar, LLC (CDP Global GenPar), the general partner of CDP Global, (viii) Avenue Special Situations Fund V, L.P. (Avenue Fund V), (ix) Avenue Capital Partners V, LLC (Avenue Capital V), the general partner of Avenue Fund V, (x) GL Partners V, LLC (GL V), the managing member of Avenue Capital V, (xi) Avenue Capital Management II, L.P. (Avenue Capital II), the investment advisor to Avenue Investments, Avenue International Master, CDP Global and Avenue Fund V (collectively, the Avenue Funds), (xii) Avenue Capital Management II GenPar, LLC (GenPar), the general partner of Avenue Capital II, and (xvi) Marc Lasry, the managing member of GenPar, GL V, CDP Global GenPar and Avenue Partners and a director of Avenue International GenPar.

As of June 30, 2010, the Avenue Capital Group beneficially owns $35,000,000.00 in aggregate principal amount of senior notes.

The Avenue Funds have the sole power to dispose of senior notes held by them. Avenue International, Avenue International GenPar, Avenue Partners, CDP Global GenPar, Avenue Capital V, GL V, Avenue Capital II, GenPar and Marc Lasry have the shared power to dispose of senior notes held by the Avenue Funds, all of whom disclaim any beneficial ownership except to the extent of their respective pecuniary interest. The address for all of the Avenue Funds is 399 Park Avenue, 6th Floor, New York, NY 10022.

(5) As of June 30, 2010, Avenue Fund V beneficially owns $29,400,000 in principal amount of senior notes. The senior notes owned by Avenue Fund V may also be deemed to be beneficially owned by Avenue Capital V, its general partner; GL V, the managing member of Avenue Capital V; Avenue Capital II, its investment adviser; GenPar, the general partner of Avenue Capital II; and Mr. Lasry, the managing member of GenPar and GL V; all of whom disclaim any beneficial ownership except to the extent of their respective pecuniary interest. For further information regarding Avenue Fund V, please see footnote (4).

(6) As of June 30, 2010, Avenue International Master beneficially owns $3,500,000 in principal amount of senior notes. The senior notes owned by Avenue International Master may also be deemed to be beneficially owned by Avenue International, its sole limited partner; Avenue International GenPar, its general partner; Avenue Partners, the sole shareholder of Avenue International GenPar; Avenue Capital II, its investment adviser; GenPar, the general partner of Avenue Capital II; and Mr. Lasry, the managing member of GenPar and Avenue Partners and a director of Avenue International GenPar; all of whom disclaim any beneficial ownership except to the extent of their respective pecuniary interest. For further information regarding Avenue International Master, please see footnote (4).

(7) As of June 30, 2010, Avenue Investments beneficially owns $1,400,000 in principal amount of senior notes. The senior notes owned by Avenue Investments may also be deemed to be beneficially owned by Avenue Partners, its general partner; Avenue Capital II, its investment adviser; GenPar, the general partner of Avenue Capital II; and Mr. Lasry, the managing member

of GenPar and Avenue Partners; all of whom disclaim any beneficial ownership except to the extent of their respective pecuniary interest. For further information regarding Avenue Investments, please see footnote (4).

(8) As of June 30, 2010, CDP Global beneficially owns $700,000 in principal amount of senior notes. The senior notes owned by CDP Global may also be deemed to be beneficially owned by CDP Global GenPar, its general partner; Avenue Capital II, its investment adviser; GenPar, the general partner of Avenue Capital II; and Mr. Lasry, the managing member of GenPar and CDP Global GenPar; all of whom disclaim any beneficial ownership except to the extent of their respective pecuniary interest. For further information regarding CDP Global, please see footnote (4).

Only securityholders identified above who beneficially own the senior notes set forth opposite each such selling securityholder s name in the foregoing table may sell such senior notes under the registration statement. Prior to any use of this prospectus in connection with an offering of the senior notes by any holder not identified above, this prospectus will be supplemented to set forth the name and other information about the selling securityholder intending to sell such senior notes. The prospectus supplement or amendment will also disclose whether any securityholder selling in connection with such prospectus supplement or amendment has held any position or office with, been employed by, or otherwise had a material relationship with us or any of our affiliates during the three years prior to the date of the prospectus supplement or amendment if such information has not been disclosed in this prospectus.

Each of the above Avenue Funds has relationships with us, as reported in Certain Relationships and Related Person Transactions.

Table of Contents

PLAN OF DISTRIBUTION

The selling securityholders and their successors, which term includes their transferees, pledgees and donees and their successors, may sell the notes directly to purchasers or through underwriters, broker-dealers or agents, who may receive compensation in the form of discounts, concessions or commissions from the selling securityholders or the purchasers. These discounts, concessions or commissions as to any particular underwriter, broker-dealer or agent may be in excess of those customary in the types of transactions involved.

The securities may be sold in one or more transactions at:

- fixed prices;
- prevailing market prices at the time of sale;
- prices related to the prevailing market prices;
- varying prices determined at the time of sale;
- a price the selling securityholder determines from time to time; or
- negotiated prices.

These sales may be effected in transactions:

- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- block trades in which the broker-dealer will attempt to sell the securities as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resales by the broker-dealer for its own account;
- an exchange distribution in accordance with the rules of the applicable exchange;
- privately negotiated transactions;
- directly through one or more purchasers;
- in market transactions, including, without limitation, over the counter transactions;

- otherwise than in the over-the-counter market;
- through the writing of options;
- through the settlement of short sales;
- a combination of any of these methods of sale; or
- any other method permitted by applicable law.

The selling securityholders will act independently of us in making decisions with respect to the timing, manner and size of each sale. These transactions may include block transactions or crosses. Crosses are transactions in which the same broker acts as agent on both sides of the trade. In connection with the sale of the notes, the selling securityholders may enter into hedging transactions with broker-dealers or other financial institutions. The selling securityholders may also sell the notes short and deliver these securities to close out such short positions, or loan or pledge the notes to broker-dealers that in turn may sell these securities. The selling securityholders may also distribute the senior notes to their members, partners or shareholders.

The aggregate proceeds to the selling securityholders from the sale of the notes offered by them hereby will be the purchase price of the notes less discounts and commissions, if any. We will not receive any of the proceeds from this offering.

Table of Contents

We do not intend to list the notes for trading on any national securities exchange and can give no assurance about the development of any trading market for the notes. Under the securities laws of some states, the senior notes may be sold in such states only through registered or licensed brokers or dealers. In addition, in some states the senior notes may not be sold unless such notes have been registered or qualified for sale in such state or an exemption from registration or qualification is available and is complied with.

Broker-dealers or agents who participate in the sale of the notes are underwriters within the meaning of Section 2(a)(11) of the Securities Act. Selling securityholders who participate in the sale of the notes may also be deemed to be underwriters within the meaning of Section 2(a)(11) of the Securities Act. Profits on the sale of the notes by selling securityholders and any discounts, commissions or concessions received by any broker-dealers or agents might be deemed to be underwriting discounts and commissions under the Securities Act. Selling securityholders who are deemed to be underwriters within the meaning of Section 2(a)(11) of the Securities Act will be subject to the prospectus delivery requirements of the Securities Act. To the extent the selling securityholders are deemed to be underwriters, they may be subject to statutory liabilities, including, but not limited to, Sections 11, 12 and 17 of the Securities Act.

The selling securityholders and any other person participating in a distribution are subject to applicable provisions of the Exchange Act and the rules and regulations thereunder to the extent that the sales of notes are distributions under Regulation M. Regulation M of the Exchange Act may limit the timing of purchases and sales of any of the securities by the selling securityholders and any other person. In addition, Regulation M may restrict the ability of any person engaged in the distribution of the securities to engage in market-making activities with respect to the particular securities being distributed for a period of up to five business days before the distribution. The selling securityholders have acknowledged that they understand their obligations to comply with the provisions of the Exchange Act and the rules thereunder relating to stock manipulation, particularly Regulation M, and have agreed that they will not engage in any transaction in violation of such provisions.

A selling securityholder may decide not to sell any notes described in this prospectus. We cannot assure holders that any selling securityholder will use this prospectus to sell any or all of the notes. Any securities covered by this prospectus which qualify for sale pursuant to Rule 144 or Rule 144A of the Securities Act may be sold under Rule 144 or Rule 144A rather than pursuant to this prospectus. In addition, a selling securityholder may transfer, devise or gift the notes by other means not described in this prospectus.

With respect to a particular offering of the notes, to the extent required, an accompanying prospectus supplement or, if appropriate, a post-effective amendment to the registration statement of which this prospectus is a part will be prepared and will set forth the following information:

- the specific notes to be offered and sold;
- the names of the selling securityholders;
- the respective purchase prices and public offering prices and other material terms of the offering;
- the names of any participating agents, broker-dealers or underwriters; and
- any applicable commissions, discounts, concessions and other items constituting, compensation from the selling securityholders

At any time a particular offer of the senior notes is made, a revised prospectus or prospectus supplement may be filed with the SEC to reflect the disclosure of required additional information with respect to the distribution of senior notes. If required, such post-effective amendment or prospectus

supplement will be distributed. We may suspend the sale of notes by the selling securityholders pursuant to this prospectus for certain periods of time for certain reasons, including if the prospectus is required to be supplemented or amended to include additional information.

Generally, the notes registration rights agreement requires that we indemnify holders of the senior notes who resell their senior notes under a registration statement filed by us against certain liabilities, including liabilities arising under the Securities Act. In addition, each holder whose senior notes are included in a registration statement may be required to indemnify us for the resale of their senior notes against certain liabilities related to the information provided by such holder with respect to such registration statement. The notes registration rights agreement also provides for the indemnitors to reimburse the indemnified persons for legal or other expenses reasonably incurred by such persons in connection with investigating or defending claims for which they are entitled to indemnification under the agreement.

State Blue Sky Information

This prospectus is not an offer to sell the securities and it is not a solicitation of an offer to buy the securities in any jurisdiction where an offer or sale thereof is not permitted. We are in the process of registering the notes described in the prospectus for resale with the following states: Arizona, Arkansas, California, Colorado, Connecticut, Delaware, Florida, Georgia, Idaho, Illinois, Indiana, Maryland, Massachusetts, Michigan, Missouri, Nevada, New Jersey, New York, North Carolina, Ohio, Oregon, Pennsylvania, South Carolina, Tennessee, Texas, Virginia, Washington, and Wisconsin. Until registration is complete for a particular state listed directly above and for all other states not listed directly above, the selling securityholders will offer and sell the notes only to institutional investors under the securities laws of the various states. Institutional investors in every state may purchase the securities in this offering pursuant to exemptions under the securities laws of various states. The definition of an institutional investor varies from state to state but generally includes financial institutions, broker-dealers, banks, insurance companies and other qualified entities. There can be no assurance that we will be successful in registering the notes for resale with the states listed directly above.

Table of Contents

LEGAL MATTERS

Certain legal matters with regard to the validity of the notes and related guarantees will be passed upon for us and the guarantors by Jones Day, Palo Alto, California; Dechert Luxembourg, Luxembourg; NautaDutilh N.V., Amsterdam, The Netherlands; DLA Piper Tokyo Partnership, Tokyo, Japan; DLA Piper Hong Kong, Hong Kong; Lee, Tsai & Partners, Taipei, Taiwan; DLA Piper UK LLP, London, England; and Harney Westwood & Riegels, British Virgin Islands.

EXPERTS

Our consolidated financial statements as of and for the two-month period ended December 31, 2009, and consolidated financial statements as of December 31, 2008 and for the ten-month period ended October 25, 2009 and for each of the two years in the period ended December 31, 2008 included in this prospectus have been so included in reliance on the reports of Samil PricewaterhouseCoopers, an independent registered public accounting firm, given on the authority of said firm as experts in accounting and auditing. The address of Samil PricewaterhouseCoopers is LS Yongsan Tower, 191 Hangangro 2ga, Yongsan-gu, Seoul 140-702, Korea. Samil PricewaterhouseCoopers is a member of the Korean Institute of Certified Public Accountants.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a registration statement on Form S-1 under the Securities Act of 1933, as amended (Registration No. 333-168790). This prospectus, which is a part of the registration statement, does not contain all of the information included in the registration statement. Any statement made in this prospectus concerning the contents of any contract, agreement or other document is not necessarily complete. For further information regarding MagnaChip and the notes, please refer to the registration statement, including its exhibits. If we have filed any contract, agreement or other document as an exhibit to the registration statement, you should read the exhibit for a more complete understanding of the documents or matters involved.

You may read and copy any reports or other information filed by us at the SEC s public reference room at 100 F Street N.E., Washington, DC 20549. Copies of this material can be obtained from the Public Reference Section of the SEC upon payment of fees prescribed by the SEC. You may call the SEC at 800-SEC-0350 for further information on the operation of the public reference room. Our filings will also be available to the public from commercial document retrieval services and at the SEC website at www.sec.gov. 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: Senior Vice President, General Counsel and Secretary; the telephone number at that address is 408-625-5999.

Table of Contents

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Interim consolidated financial statements (unaudited)

MagnaChip Semiconductor LLC Consolidated Balance Sheets as of June 30, 2010 and December 31, 2009 (Successor Company)	F-2
MagnaChip Semiconductor LLC Consolidated Statements of Operations for the Six Months Ended June 30, 2010 (Successor Company) and June 28, 2009 (Predecessor Company)	F-3
MagnaChip Semiconductor LLC Consolidated Statements of Changes in Unitholders Equity for the Six Months Ended June 30, 2010 (Successor Company) and June 28, 2009 (Predecessor Company)	F-4
MagnaChip Semiconductor LLC Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2010 (Successor Company) and June 28, 2009 (Predecessor Company)	F-5
MagnaChip Semiconductor LLC Notes to Consolidated Financial Statements	F-6

Consolidated financial statements (audited)

Reports of Independent Registered Public Accounting Firm	F-27
MagnaChip Semiconductor LLC Consolidated Balance Sheets as of December 31, 2009 (Successor Company) and as of December 31, 2008 (Predecessor Company)	F-29
MagnaChip Semiconductor LLC Consolidated Statements of Operations for the Two-Month Period Ended December 31, 2009 (Successor Company), and the Ten-Month Period Ended October 25, 2009 and the Years Ended December 31, 2008 and 2007 (Predecessor Company)	F-30
MagnaChip Semiconductor LLC Consolidated Statements of Changes in Unitholders Equity For the Two-Month Period Ended December 31, 2009 (Successor Company), and the Ten-Month Period Ended October 25, 2009 and the Years Ended December 31, 2008 and 2007 (Predecessor Company)	F-31
MagnaChip Semiconductor LLC Consolidated Statements of Cash Flows for the Two-Month Period Ended December 31, 2009 (Successor Company), and the Ten-Month Period Ended October 25, 2009 and the Years Ended December 31, 2008 and 2007 (Predecessor Company)	F-32
MagnaChip Semiconductor LLC Notes to Consolidated Financial Statements	F-33

Table of Contents

MAGNACHIP SEMICONDUCTOR LLC AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	Successor	
	June 30, 2010 Historical	**December 31, 2009 Historical**
	(Unaudited; in thousands of US dollars, except unit data)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 141,310	$ 64,925
Accounts receivable, net	117,711	74,233
Inventories, net	59,972	63,407
Other receivables	3,702	3,433
Prepaid expenses	9,908	12,625
Other current assets	11,097	3,433
Total current assets	343,700	222,056
Property, plant and equipment, net	155,040	156,337
Intangible assets, net	34,837	50,158
Long-term prepaid expenses	10,883	10,542
Other non-current assets	21,491	14,238
Total assets	$ 565,951	$ 453,331
LIABILITIES AND UNITHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 69,379	$ 59,705
Other accounts payable	22,546	7,190
Accrued expenses	31,906	22,114
Current portion of long-term borrowings		618
Other current liabilities	7,826	3,937
Total current liabilities	131,657	93,564
Long-term borrowings, net	246,746	61,132
Accrued severance benefits, net	76,394	72,409
Other non-current liabilities	9,234	10,536
Total liabilities	464,031	237,641
Commitments and contingencies		
Unitholders equity		
Common units, no par value, 375,000,000 units authorized, 307,233,996 and 307,083,996 units issued and outstanding at June 30, 2010 and December 31, 2009, respectively	55,453	55,135
Additional paid-in capital	39,224	168,700
Accumulated deficit	(1,609)	(1,963)
Accumulated other comprehensive income (loss)	8,852	(6,182)
Total unitholders equity	101,920	215,690

Total liabilities and unitholders equity	$ 565,951	$ 453,331

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

F-2

Table of Contents

MAGNACHIP SEMICONDUCTOR LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Six Months Ended	
	Successor	Predecessor
	June 30, 2010	June 28, 2009
	(Unaudited; in thousands of US dollars, except unit data)	
Net sales	$ 374,185	$ 241,152
Cost of sales	260,293	171,922
Gross profit	113,892	69,230
Selling, general and administrative expenses	33,872	33,636
Research and development expenses	41,074	33,228
Restructuring and impairment charges	603	439
Operating income from continuing operations	38,343	1,927
Other income (expenses)		
Interest expense, net	(8,606)	(27,491)
Foreign currency gain (loss), net	(26,657)	(9,420)
Reorganization items, net		(340)
Others	(1,002)	
	(36,265)	(37,251)
Income (loss) from continuing operations before income taxes	2,078	(35,324)
Income tax expenses	1,724	5,005
Income (loss) from continuing operations	354	(40,329)
Loss from discontinued operations, net of taxes		1,751
Net income (loss)	$ 354	$ (42,080)
Dividends accrued on preferred units		6,317
Income (loss) from continuing operations attributable to common units	$ 354	$ (46,646)
Net income (loss) attributable to common units	$ 354	$ (48,397)
Earnings (loss) per common unit from continuing operations		
Basic and diluted	$ 0.00	$ (0.88)
Loss per common unit from discontinued operations		
Basic and diluted	$	$ 0.03
Earnings (loss) per common unit Basic and diluted	$ 0.00	$ (0.91)

Weighted average number of units Basic	302,501,374	52,923,483
Weighted average number of units Diluted	312,480,377	52,923,483

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

Table of Contents

MAGNACHIP SEMICONDUCTOR LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN UNITHOLDERS EQUITY

	Common Units		Additional Paid-In Capital	Retained Earnings (Accumulated deficit)	Accumulated Other Comprehensive Income (loss)	Total
	Units	Amount				
			(Unaudited; in thousands of US dollars, except unit data)			
Six Months Ended June 30, 2010						
Balance at January 1, 2010	307,083,996	$ 55,135	$ 168,700	$ (1,963)	$ (6,182)	$ 215,690
(Successor Company)						
Unit-based compensation	150,000	318	1,221			1,539
Distribution to unitholders			(130,697)			(130,697)
Comprehensive income:						
Net income				354		354
Fair valuation of derivatives					(3,524)	(3,524)
Foreign currency translation adjustments					18,422	18,422
Unrealized gains on investments					136	136
Total comprehensive income						15,388
Balance at June 30, 2010	307,233,996	$ 55,453	$ 39,224	$ (1,609)	$ 8,852	$ 101,920
Six Months Ended June 28, 2009						
Balance at January 1, 2009	52,923,483	52,923	3,150	(995,007)	151,135	(787,799)
(Predecessor Company)						
Unit-based compensation			167			167
Dividends accrued on preferred units				(6,317)		(6,317)
Comprehensive loss:						
Net loss				(42,080)		(42,080)
Foreign currency translation adjustments					3,901	3,901
Unrealized gains on investments					464	464
Total comprehensive loss						(37,715)
Balance at June 28, 2009	52,923,483	$ 52,923	$ 3,317	$ (1,043,404)	$ 155,500	$ (831,664)

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

Table of Contents

MAGNACHIP SEMICONDUCTOR LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended	
	Successor June 30, 2010	**Predecessor June 28, 2009**
	(Unaudited; in thousands of US dollars)	
Cash flows from operating activities		
Net income (loss)	$ 354	$ (42,080)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization	29,985	22,167
Provision for severance benefits	9,380	3,738
Amortization of debt issuance costs and original issue discount	449	499
Loss on foreign currency translation, net	29,975	9,758
Loss (gain) on disposal of property, plant and equipment, net	(9)	82
Loss on disposal of intangible assets, net	7	74
Restructuring and impairment charges	603	
Unit-based compensation	2,752	167
Cash used for reorganization items	1,475	
Noncash reorganization items		340
Other	740	1,077
Changes in operating assets and liabilities		
Accounts receivable	(45,243)	(13,972)
Inventories	1,342	7,899
Other receivables	119	343
Deferred tax assets	618	1,623
Accounts payable	7,542	8,520
Other accounts payable	11,330	(2,884)
Accrued expenses	7,841	25,542
Long term other payable	(1,531)	405
Other current assets	(92)	517
Other current liabilities	(1,172)	5,081
Payment of severance benefits	(2,760)	(3,207)
Other	(1,324)	(184)
Net cash provided by operating activities before reorganization items	52,381	25,505
Cash used for reorganization items	(1,475)	
Net cash provided by operating activities	50,906	25,505
Cash flows from investing activities		
Proceeds from disposal of plant, property and equipment	13	282
Proceeds from disposal of intangible assets		1
Purchase of plant, property and equipment	(20,509)	(2,082)
Payment for intellectual property registration	(245)	(155)
Increase in restricted cash		(17,524)
Decrease (increase) in short-term financial instruments	329	(324)
Decrease in guarantee deposits	999	608
Other	(778)	3
Net cash used in investing activities	(20,191)	(19,191)
Cash flows from financing activities		
Proceeds from issuance of senior notes	246,685	
Debt issuance costs paid	(8,313)	
Repayment of long-term borrowings	(61,750)	
Distribution to unitholders	(130,697)	
Net cash provided by financing activities	45,925	
Effect of exchange rates on cash and cash equivalents	(255)	(914)

Net increase in cash and cash equivalents	76,385	5,400
Cash and cash equivalents		
Beginning of the period	64,925	4,037
End of the period	$ 141,310	$ 9,437
Supplemental cash flow information		
Cash paid for interest	$ 3,333	$ 2,958
Cash paid (refunded) for income taxes	$ (270)	$ 4,896

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

MAGNACHIP SEMICONDUCTOR LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED; TABULAR DOLLARS IN THOUSANDS, EXCEPT UNIT DATA)

1. General

The Company

MagnaChip Semiconductor LLC (together with its subsidiaries, the Company) is a Korea-based designer and manufacturer of analog and mixed-signal semiconductor products for high-volume consumer applications. The Company s business is comprised of three key segments: 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 applications. The Company s Semiconductor Manufacturing Services segment provides specialty analog and mixed-signal foundry services for fabless semiconductor companies that serve the consumer, computing and wireless end markets.

2. Significant Accounting Policies

Basis of Presentation

The accompanying unaudited interim consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles in the United States of America (US GAAP). These interim consolidated financial statements include all adjustments consisting only of normal recurring adjustments and the elimination of all intercompany accounts and transactions which are, in the opinion of management, necessary to provide a fair presentation of financial condition and results of operations for the periods presented. These interim consolidated financial statements are presented in accordance with ASC 270, *Interim Reporting,* (ASC 270) and, accordingly, do not include all of the information and note disclosures required by US GAAP for complete financial statements. The results of operations for the six months ended June 30, 2010 are not necessarily indicative of the results to be expected for a full year or for any other periods.

The year-end balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

Recent Accounting Pronouncements

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

MAGNACHIP SEMICONDUCTOR LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED; TABULAR DOLLARS IN THOUSANDS, EXCEPT UNIT DATA)

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

3. Voluntary Reorganization under Chapter 11

On June 12, 2009, MagnaChip Semiconductor LLC (the Parent), MagnaChip Semiconductor B.V., MagnaChip Semiconductor S.A. and certain other subsidiaries of the Parent in the U.S. (the Debtors), filed a voluntary petition for relief in the U.S. Bankruptcy Court for the District of Delaware under Chapter 11 of the U.S. Bankruptcy Code. The court approved a plan of reorganization proposed by the Creditors Committee on September 25, 2009 (the Plan of Reorganization), and the Plan of Reorganization became effective and the Debtors emerged from Chapter 11 reorganization proceedings (the Reorganization Proceedings) on November 9, 2009 (the Reorganization Effective Date). On the Reorganization Effective Date, the Company implemented fresh-start reporting in accordance with Accounting Standards Codification (ASC) 852, *Reorganizations*, (ASC 852).

All conditions required for the adoption of fresh-start reporting were met upon emergence from the Reorganization Proceedings on the Reorganization Effective Date. The Company is permitted to select an accounting convenience date (the Fresh-Start Adoption Date) proximate to the emergence date for purposes of fresh-start reporting, provided that an analysis of the activity between the date of emergence and an accounting convenience date does not result in a material difference in the fresh-start reporting results. The Company evaluated transaction activity between October 25, 2009 and the Reorganization Effective Date and concluded an accounting convenience date of October 25, 2009 which was the Company s October accounting period end was appropriate.

As a result, the fair value of the Predecessor Company s assets became the new basis for the Successor Company s consolidated statement of financial position as of the Fresh-Start Adoption Date, and all operations beginning on or after October 26, 2009 are related to the Successor Company.

As a result of the application of fresh-start reporting in accordance with ASC 852, the financial statements prior to and including October 25, 2009 represent the operations of the Predecessor Company and are not comparable with the financial statements for periods on or after October 25, 2009. References to the Successor Company refer to the Company on or after October 25, 2009, after giving effect to the application of fresh-start reporting. References to the Predecessor Company refer to the Company prior to and including October 25, 2009.

Table of Contents

MAGNACHIP SEMICONDUCTOR LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED; TABULAR DOLLARS IN THOUSANDS, EXCEPT UNIT DATA)

4. Inventories

Inventories as of June 30, 2010 and December 31, 2009 consist of the following:

	Successor	
	June 30, 2010	December 31, 2009
Finished goods	$ 8,338	$ 19,474
Semi-finished goods and work-in-process	47,353	42,604
Raw materials	8,999	5,844
Materials in-transit	213	64
Less: inventory reserve	(4,931)	(4,579)
Inventories, net	$ 59,972	$ 63,407

5. Property, Plant and Equipment

Property, plant and equipment as of June 30, 2010 and December 31, 2009 comprise the following:

	Successor	
	June 30, 2010	December 31, 2009
Buildings and related structures	$ 69,533	$ 72,076
Machinery and equipment	87,196	71,505
Vehicles and others	4,245	3,043
	160,974	146,624
Less: accumulated depreciation	(20,502)	(5,388)
Land	14,568	15,101
Property, plant and equipment, net	$ 155,040	$ 156,337

6. Intangible Assets

Intangible assets as of June 30, 2010 and December 31, 2009 are as follows:

	Successor	
	June 30, 2010	December 31, 2009
Technology	$ 17,499	$ 14,942
Customer relationships	25,516	26,448

Intellectual property assets	4,867	4,779
In-process research and development	5,836	9,829
Less: accumulated amortization	(18,881)	(5,840)
Intangible assets, net	$ 34,837	$ 50,158

Table of Contents

MAGNACHIP SEMICONDUCTOR LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED; TABULAR DOLLARS IN THOUSANDS, EXCEPT UNIT DATA)

7. Derivative Financial Instruments

Effective January 11, 2010, the Company s Korean subsidiary entered into option and forward contracts to hedge the risk of changes in the functional-currency-equivalent cash flows attributable to currency rate changes on U.S. dollar denominated revenues. Total notional amounts for the options and forward contracts were $50 million and $135 million, respectively, and monthly settlements for the contracts were and will be made from February to December 2010.

Effective May 25, 2010, the Company s Korean subsidiary entered into additional option and forward contracts to hedge the risk of changes in the functional-currency-equivalent cash flows attributable to currency rate changes on U.S. dollar denominated revenues. Total notional amounts for the options and forward contracts were $30 million and $78 million, respectively, and monthly settlements for the contracts will be made from January to June 2011.

The option and forward contracts qualify as cash flow hedges under ASC 815, *Derivatives and Hedging*, (ASC 815), since at both the inception of the contracts and on an ongoing basis, the hedging relationship was and is expected to be highly effective in achieving offsetting cash flows attributable to the hedged risk during the term of the contracts. The Company is utilizing the hypothetical derivative method to measure the effectiveness by comparing the changes in value of the actual derivative versus the change in fair value of the hypothetical derivative.

The fair values of the Company s outstanding option and forward contracts recorded as assets and liabilities are as follows:

Derivatives designated as hedging instruments under ASC 815:		**June 30, 2010**
Asset Derivatives:		
Options	Other current assets	$ 205
Forwards	Other current assets	$ 1,696
Liability Derivatives:		
Forwards	Other current liabilities	$ 5,021

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of accumulated other comprehensive income (AOCI) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative, representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness, are recognized in current earnings.

Table of Contents

MAGNACHIP SEMICONDUCTOR LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED; TABULAR DOLLARS IN THOUSANDS, EXCEPT UNIT DATA)

The following table summarizes the impact of derivative instruments on the consolidated statement of operations for the six months June 30, 2010:

Derivatives in ASC 815 Cash Flow Hedging Relationships	Amount of Loss Recognized in AOCI on Derivatives (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI into Statements of Operations (Effective Portion)	Amount of Loss Reclassified from AOCI into Statements of Operations (Effective Portion)	Location of Loss Recognized in Statements of Operations on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Loss Recognized in Statements of Operations on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Options	$ (1,138)	Net sales	$ (183)	Other income (expenses) Others	$ (62)
Forwards	(2,386)	Net sales	(1,695)	Other income (expenses) Others	(945)
Total	$ (3,524)		$ (1,878)		$ (1,007)

The Company s option and forward contracts are subject to termination upon the occurrence of the following events:

(i) On the last day of a fiscal quarter, the sum of qualified and unrestricted cash and cash equivalents held by the Company is less than $30 million.

(ii) The rating of the Company s debt is B- or lower by Standard & Poor s Ratings Group or any successor rating agency thereof (S&P) or B3 or lower by Moody s Investor Services, Inc. or any successor rating agency thereof (Moody s) or the Company s debt ceases to be assigned a rating by either S&P or Moody s.

In addition, the Company is required to deposit cash collateral with Goldman Sachs International Bank, the counterparty to the option and forward contracts, for any exposure in excess of $5 million.

8. Fair Value Measurements

ASC 820 defines fair value, establishes a consistent framework for measuring fair value and expands disclosure requirements about fair value measurements. ASC 820 requires, among other things, the Company s valuation techniques used to measure fair value to maximize the use of observable inputs and minimize the use of unobservable inputs.

Table of Contents

MAGNACHIP SEMICONDUCTOR LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED; TABULAR DOLLARS IN THOUSANDS, EXCEPT UNIT DATA)

The valuation techniques required by ASC 820 are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions made by the Company. These two types of inputs create the following fair value hierarchy:

Level 1	Unadjusted quoted prices for identical instruments in active markets.
Level 2	Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations for which inputs are observable or for which significant value drivers are observable.
Level 3	Significant inputs to the valuation model are unobservable.

The following table represents the Company s assets and liabilities measured at fair value on a recurring basis as of June 30, 2010 and the basis for that measurement:

	Carrying Value June 30, 2010	Fair Value Measurement June 30, 2010	Quoted Prices in Active Markets for Identical Asset (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:					
Current derivative assets	$ 1,901	$ 1,901	$	$ 1,901	$
Available-for-sale securities	691	691	691		
Liabilities:					
Current derivative liabilities	5,021	5,021		5,021	

9. Long-Term Borrowings

Long-term borrowings as of June 30, 2010 and December 31, 2009 are as follows:

	Successor	
	June 30, 2010	December 31, 2009
New term loan	$	$ 61,750
10.5% senior notes due April 2018	250,000	
Current portion of long-term borrowings		(618)
	250,000	61,132
Discount on 10.5% senior notes due April 2018	(3,254)	
Long-term borrowings, net of unamortized discount	$ 246,746	$ 61,132

New Term Loan

In connection with the Predecessor Company s reorganization in 2009, in complete satisfaction of the first lien lender claims arising from the senior secured credit facility (included in short-term borrowings) of $95 million, the Company made a cash payment of $33,250 thousand to the senior

MAGNACHIP SEMICONDUCTOR LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED; TABULAR DOLLARS IN THOUSANDS, EXCEPT UNIT DATA)

secured credit facility lenders and, together with its subsidiaries, including MagnaChip Semiconductor S.A. and MagnaChip Semiconductor Finance Company, as borrowers, entered into a $61,750 thousand Amended and Restated Credit Agreement (the Credit Agreement or the new term loan) with Avenue Investments, L.P., Goldman Sachs Lending Partners LLC and Citicorp North America, Inc.

Long-term borrowings as of December 31, 2009 consisted of Eurodollar loans at an annual interest rate of 6 month LIBOR + 12% to Avenue Investments, L.P., Goldman Sachs Lending Partners LLC and Citicorp North America, Inc. in the principal amount of $42,055 thousand, $12,285 thousand and $7,410 thousand, respectively.

On April 9, 2010, the new term loan of $61,596 thousand was fully repaid by the Company with the proceeds from issuance of new 10.5% senior notes. In connection with the repayment of the new term loan, $210 thousand of relevant debt issuance costs were written off.

As of the early repayment date, the Company and all of its subsidiaries except for MagnaChip Semiconductor (Shanghai) Company Limited jointly and severally guaranteed, as a primary obligor, the payment and performance of the borrower s obligations under the Credit Agreement.

10.5% Senior Notes

On April 9, 2010, two of the Company s wholly-owned subsidiaries, MagnaChip Semiconductor S.A. and MagnaChip Semiconductor Finance Company, issued $250 million aggregate principal amount of 10.5% senior notes due April 15, 2018 at a price of 98.674%. Interest on the notes will accrue at a rate of 10.5% per annum, payable semi-annually on April 15 and October 15 of each year, beginning on October 15, 2010. $250 million of principle amount will be paid in full at April 15, 2018. The obligations under the senior notes are fully and unconditionally guaranteed on an unsecured senior basis by the Company and all of its subsidiaries except for MagnaChip Semiconductor, Ltd. (Korea) and MagnaChip Semiconductor (Shanghai) Company Limited.

Of the $238,372 thousand of net proceeds, which represents $250 million of principal amount net of $3,315 thousand of original issue discount and $8,313 thousand of debt issuance costs, $130,697 thousand was used to make a distribution to the Company s stockholders and $61,596 thousand was used to repay all outstanding borrowings under the new term loan. The remaining proceeds of $46,079 thousand were retained to fund working capital and for general corporate purposes.

The Company can optionally redeem all or a part of the notes according to the following schedule: (i) at any time prior to April 15, 2013, the Company may on any one or more occasions redeem up to 35% of the aggregate principal amount of notes issued under the indenture at a redemption price equal to 110.5% of the principal amount of the notes redeemed, plus accrued and unpaid interest and special interest, if any, to the date of redemption; (ii) at any time prior to April 15, 2014, the Company may on any one or more occasions redeem all or a part of the notes at a redemption price equal to 100% of the principal amount of the notes redeemed, plus the applicable premium as of, and accrued and unpaid interest and special interest, if any, to the date of redemption; and (iii) on or after April 15, 2014, the Company may on any one or more occasions redeem all or a part of the notes, at a redemption price equal to 105.25%, 102.625% and 100% of the principal amount of the notes redeemed in 2014, 2015 and 2016 and thereafter, respectively, plus accrued and unpaid interest and special interest, if any, on the notes redeemed, to the applicable date of redemption.

MAGNACHIP SEMICONDUCTOR LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED; TABULAR DOLLARS IN THOUSANDS, EXCEPT UNIT DATA)

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

These covenants will be subject to a number of exceptions and qualifications. Certain of these restrictive covenants will terminate if the notes are rated investment grade at any time.

As of June 30, 2010, the Company is compliant with all of its covenant requirements.

Of the $250 million aggregate principal amount, funds affiliated with Avenue Capital Management II, L.P. purchased $35 million principal amount.

In connection with the issuance of the senior notes, the Company capitalized certain costs and fees, which are being amortized using the effective interest method over its respective term, 2010 to 2018. Amortization costs, which were included in interest expense in the accompanying statements of operations, amounted to $153 thousand for the six months ended June 30, 2010. The remaining capitalized costs as of June 30, 2010 were $8,160 thousand.

10. Accrued Severance Benefits

The majority of accrued severance benefits is for employees in the Company s Korean subsidiary, MagnaChip Semiconductor Ltd. (Korea). Pursuant to the Employee Retirement Benefit Security Act of Korea, most 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 June 30, 2010, 98.5% of all employees of the Company were eligible for severance benefits.

Table of Contents

MAGNACHIP SEMICONDUCTOR LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED; TABULAR DOLLARS IN THOUSANDS, EXCEPT UNIT DATA)

Changes in accrued severance benefits for each period are as follows:

		Six Months Ended	
		Successor	Predecessor
		June 30, 2010	June 28, 2009
Beginning balance		$ 73,646	$ 63,147
Provisions		9,380	3,738
Severance payments		(2,760)	(3,207)
Translation adjustments		(2,728)	(1,066)
		77,538	62,612
Less:	Cumulative contributions to the National Pension Fund	(476)	(496)
	Group Severance insurance plan	(668)	(634)
Accrued severance benefits, net		$ 76,394	$ 61,482

The severance benefits are funded approximately 1.48% and 1.80% as of June 30, 2010 and June 28, 2009, respectively, through the Company s National Pension Fund and group severance insurance plan which will be used exclusively for payment of severance benefits to eligible employees. These amounts have been deducted from the accrued severance benefit balance.

The Company is liable to pay the following future benefits to its non-executive employees upon their normal retirement age:

	Severance benefit
Remainder of 2010	$ 32
2011	
2012	132
2013	
2014	275
2015	304
2016 2020	10,225

The above amounts were determined based on the non-executive employees current salary rates and the number of service years that will be accumulated upon their retirement dates. These amounts do not include amounts that might be paid to non-executive employees that will cease working with the Company before their normal retirement ages.

MAGNACHIP SEMICONDUCTOR LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED; TABULAR DOLLARS IN THOUSANDS, EXCEPT UNIT DATA)

11. Redeemable Convertible Preferred Units

Predecessor Company

Changes in Series B units for each period are as follows:

	Six Months Ended June 28, 2009	
	Units	**Amount**
Beginning of period	93,997	$ 142,669
Accrual of preferred dividends		6,317
End of period	93,997	$ 148,986

The Series B units were retired without consideration as part of the Company s reorganization in 2009.

12. Discontinued Operations

On October 6, 2008, the Company announced the closure of its Imaging Solutions business segment. As of December 31, 2008, Imaging Solutions business segment qualified as a discontinued operation component of the Company under ASC 360, *Property, Plant and Equipment,* (ASC 360). As a result, the results of operations of the Imaging Solutions business segment were classified as discontinued operations.

The results of operations of the Company s discontinued Imaging Solutions business consist of the following:

	Predecessor Six Months Ended June 28, 2009
Net sales	$ 2,254
Cost of sales	3,377
Selling, general and administrative expenses	628
Loss from discontinued operations, net of taxes	$ 1,751

13. Restructuring and Impairment Charges

Successor Company

2010 Restructuring and Impairment Charges

The Company recognized $603 thousand of impairment charge for the six months ended June 30, 2010, for the four abandoned IPR&D projects which were recorded as a result of its adoption of fresh-start reporting as of October 25, 2009.

F-15

MAGNACHIP SEMICONDUCTOR LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED; TABULAR DOLLARS IN THOUSANDS, EXCEPT UNIT DATA)

Predecessor Company

2009 Restructuring and Impairment Charges

On March 31, 2009, the Company announced the closure of the Tokyo office of its subsidiary, MagnaChip Semiconductor Inc. (Japan). In connection with this closure, the Company recognized and $439 thousand of restructuring charges, which consisted of one-time termination benefits and other related costs under ASC 420, *Exit or Disposal Cost Obligations,* (ASC 420), for the six months ended June 28, 2009. There was no remaining accrual as of June 28, 2009.

14. Uncertainty in Income Taxes

The Company s subsidiaries file income tax returns in Korea, Japan, Taiwan, the U.S. and in various other jurisdictions. The Company is subject to income tax examinations by tax authorities of these jurisdictions for the applicable statute of limitations since the beginning of its operation as an independent company in October 2004.

As of June 30, 2010 and December 31, 2009, the Company recorded $867 thousand and $1,997 thousand of liabilities for unrecognized tax benefits, respectively. For the six months ended June 30, 2010, the Company reversed $1,640 thousand of liabilities due to the lapse of the applicable statute of limitations.

The Company recognizes interest and penalties accrued related to unrecognized tax benefits as income tax expenses. The Company recognized $64 thousand of interest and penalties as income tax expenses for the six months ended June 30, 2010. And it also recognized $147 thousand of interest and penalties as income tax expenses for the six months ended June 28, 2009. Total interest and penalties accrued as of June 30, 2010 and December 31, 2009 were $194 thousand and $946 thousand, respectively.

15. Geographic and Segment Information

The following sets forth information relating to the reportable segments:

	Six Months Ended	
	Successor June 30, 2010	**Predecessor June 28, 2009**
Net Sales		
Display Solutions	$ 157,314	$ 133,807
Semiconductor Manufacturing Services	194,765	103,100
Power Solutions	21,074	2,618
All other	1,032	1,627
Total segment net sales	$ 374,185	$ 241,152
Gross Profit		
Display Solutions	$ 36,553	$ 36,109
Semiconductor Manufacturing Services	72,296	31,993
Power Solutions	4,011	(499)
All other	1,032	1,627

Total segment gross profit	$ 113,892	$ 69,230

MAGNACHIP SEMICONDUCTOR LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED; TABULAR DOLLARS IN THOUSANDS, EXCEPT UNIT DATA)

The following is a summary of net sales by region, based on the location of the customer:

	Six Months Ended	
	Successor June 30, 2010	**Predecessor June 28, 2009**
Korea	$ 198,970	$ 134,607
Asia Pacific	101,161	65,288
Japan	22,991	16,769
North America	44,066	19,708
Europe	6,779	4,780
Africa	218	
Total	$ 374,185	$ 241,152

Net sales from the Company s top ten largest customers accounted for 64.2% and 70.1% for the six months ended June 30, 2010 and June 28, 2009, respectively.

The Company recorded $70,893 thousand and $73,962 thousand of sales to one customer within its Display Solutions segment, which represents greater than 10% of net sales, for the six months ended June 30, 2010 and June 28, 2009, respectively.

Over 99% of the Company s property, plant and equipment are located in Korea as of June 30, 2010.

16. Commitments and Contingencies

Samsung Fiber Optics has made a claim against the Company for the infringement of the certain patent rights of Caltech in relation to imaging sensor products provided by the Company to Samsung Fiber Optics. The Company believes it is probable that the pending claim will have an unfavorable outcome and further believes the associated loss can be reasonably estimated according to ASC 450 *Contingencies* (ASC 450). The Company recorded $718 thousand of estimated liabilities as of June 30, 2010 and December 31, 2009 in accrued expenses in the accompanying balance sheets, as the Company believes its accrual is its best estimate if the final outcome is unfavorable. Estimation was based on the most recent communication with Samsung Fiber Optics. Accordingly, the Company cannot provide assurance that the estimated liabilities will be realized, and actual results could vary materially.

MAGNACHIP SEMICONDUCTOR LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED; TABULAR DOLLARS IN THOUSANDS, EXCEPT UNIT DATA)

17. Earnings (loss) per Unit

The following table illustrates the computation of basic and diluted earnings (loss) per common unit:

	Six Months Ended	
	Successor June 30, 2010	**Predecessor June 28, 2009**
Income (loss) from continuing operations	$ 354	$ (40,329)
Loss from discontinued operations, net of taxes		(1,751)
Net income (loss)	354	(42,080)
Dividends accrued on preferred unitholders		(6,317)
Income (loss) from continuing operations attributable to common units	$ 354	$ (46,646)
Net income (loss) attributable to common units	$ 354	$ (48,397)
Weighted average common units outstanding-basic	302,501,374	52,923,483
Weighted average common units outstanding-diluted	312,480,377	52,923,483
Basic and diluted earnings (loss) per unit from continuing operations	$ 0.00	$ (0.88)
Basic and diluted earnings (loss) per unit from discontinued operations	$	$ (0.03)
Basic and diluted net earnings (loss) per unit	$ 0.00	$ (0.91)

The following outstanding unit options and warrants were excluded from the computation of diluted earnings (loss) per unit of Successor Company, as they would have an anti-dilutive effect on the calculation. The following outstanding redeemable convertible preferred units and unit options were excluded from the computation of diluted earnings (loss) per unit of Predecessor Company as they were out of money position considering the Reorganization Proceedings of Predecessor Company:

	Six Months Ended	
	Successor June 30, 2010	**Predecessor June 28, 2009**
Redeemable convertible preferred units		93,997
Options	914,000	3,882,506
Warrants	15,000,000	

MAGNACHIP SEMICONDUCTOR LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED; TABULAR DOLLARS IN THOUSANDS, EXCEPT UNIT DATA)

18. Subsequent Events

The Company has evaluated subsequent events requiring recognition or disclosure in the consolidated financial statements during the period from July 1, 2010 through September 3, 2010, the date the unaudited interim consolidated financial statements were available to be issued.

A. Form S-4 and Form S-1 Filing in Connection With the 10.5% Senior Notes

On August 4, 2010, the Company filed a registration statement on Form S-4 that set forth the terms and conditions under which the Company offered to exchange up to $215 million aggregate principal amount of 10.5% Senior Notes due 2018, which will be registered under the Securities Act (the new notes), for an equal principal amount of the Company s outstanding unregistered 10.5% Senior Notes due 2018, which the Company issued on April 9, 2010 (the old notes). The terms of the new notes are substantially identical to the terms of the old notes (including principal amount, interest rate, maturity and redemption rights), except that the new notes will be registered under the Securities Act and will bear a separate CUSIP number, and the transfer restrictions, registration rights and related special interest terms applicable to the old notes will not apply to the new notes. The new notes will evidence the same indebtedness as the old notes which they will replace, and both the old notes and the new notes are governed by the same indenture. In addition, on August 12, 2010, the Company filed a registration statement on Form S-1 for the registration under the Securities Act of the resale of up to $35 million aggregate principal amount of old notes held by funds affiliated with Avenue Capital Management II, L.P.

B. Cash Flow Hedge Transactions

Effective August 12, 2010, the Company s Korean subsidiary entered into zero cost collar contracts to hedge the risk of changes in the functional-currency-equivalent cash flows attributable to currency rate changes on U.S. dollar denominated revenues. Total notional amounts for the zero cost collar contracts were $108 million and monthly settlements for the contracts will be made from July to December 2011. Under the Company s hedge strategy utilizing these zero cost collar contracts, appreciation of the Korean won against the U.S. dollar beyond 1,100:1 and depreciation of Korean won against U.S. dollar below 1,348:1 were designated as the risk being hedged.

C. Capital Lease Agreement

On August 31, 2010, the Company s Korean subsidiary (the lessee) entered into a capital lease agreement with MMT First Company Limited for the use of semiconductor equipment. The lease term is two years, and the total amount of lease payments to be paid on a quarterly basis over the lease term is $11,437 thousand. The lease was categorized as a capital lease because the lease provides that the ownership of the equipment transfers to the lessee upon expiration of the lease term.

19. Condensed Consolidating Financial Information

The $250 million senior notes are fully and unconditionally, jointly and severally guaranteed by the Company and all of its subsidiaries, except for MagnaChip Semiconductor, Ltd. (Korea) and MagnaChip Semiconductor (Shanghai) Company Limited.

The senior notes are structurally subordinated to the creditors of the Company s principal manufacturing and selling subsidiary, MagnaChip Semiconductor, Ltd. (Korea), which accounts for substantially all of the Company s net sales and assets.

Table of Contents

MAGNACHIP SEMICONDUCTOR LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED; TABULAR DOLLARS IN THOUSANDS, EXCEPT UNIT DATA)

Below are condensed consolidating balance sheets as of June 30, 2010 and December 31, 2009, condensed consolidating statements of operations for the six months ended June 30, 2010 and June 28, 2009 and condensed consolidating statement of cash flows for the six months ended June 30, 2010 and June 28, 2009 of those entities that guarantee the senior notes, those that do not, MagnaChip Semiconductor LLC, and the co-issuers.

For the purpose of the guarantor financial information, the investments in subsidiaries are accounted for under the equity method.

Table of Contents

MAGNACHIP SEMICONDUCTOR LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED; TABULAR DOLLARS IN THOUSANDS, EXCEPT UNIT DATA)

Condensed Consolidating Balance Sheet

June 30, 2010

(Successor Company)

	MagnaChip Semiconductor LLC (Parent)	Co-Issuers	Non-Guarantors	Guarantors	Eliminations	Consolidated
Assets						
Current assets						
Cash and cash equivalents	$ 73	$ 46,596	$ 82,448	$ 12,193	$	$ 141,310
Accounts receivable, net			155,751	55,483	(93,523)	117,711
Inventories, net			59,956	174	(158)	59,972
Other receivables	710	718	19,786	2,774	(20,286)	3,702
Prepaid expenses	37	5	12,658	105	(2,897)	9,908
Short-term intercompany loan		95,000		95,000	(190,000)	
Other current assets	5,509	102,276	3,479	97,524	(197,691)	11,097
Total current assets	6,329	244,595	334,078	263,253	(504,555)	343,700
Property, plant and equipment, net			154,683	357		155,040
Intangible assets, net			34,223	614		34,837
Long-term prepaid expenses			21,480		(10,597)	10,883
Investment in subsidiaries	(594,889)	(667,901)		(520,778)	1,783,568	
Long-term intercompany loan	697,125	778,693		621,000	(2,096,818)	
Other non-current assets		8,160	5,987	7,344		21,491
Total Assets	$ 108,565	$ 363,547	$ 550,451	$ 371,790	$ (828,402)	$ 565,951
Liabilities and Unitholders Equity						
Current liabilities						
Accounts payable	$	$	$ 123,934	$ 38,913	$ (93,468)	$ 69,379
Other accounts payable	6,545	7,730	23,145	5,412	(20,286)	22,546
Accrued expenses	100	5,985	119,304	104,263	(197,746)	31,906
Short-term intercompany borrowings			95,000	95,000	(190,000)	
Other current liabilities			6,913	3,810	(2,897)	7,826
Total current liabilities	6,645	13,715	368,296	247,398	(504,397)	131,657
Long-term borrowings		943,871	621,000	778,693	(2,096,818)	246,746
Accrued severance benefits, net			75,173	1,221		76,394
Other non-current liabilities			6,707	13,124	(10,597)	9,234
Total liabilities	6,645	957,586	1,071,176	1,040,436	(2,611,812)	464,031

Commitments and contingencies

Unitholders equity						
Common units	55,453	136,229	39,005	51,976	(227,210)	55,453
Additional paid-in capital	39,224	(735,016)	(538,379)	(733,394)	2,006,789	39,224
Retained earnings (accumulated deficit)	(1,609)	(4,104)	(29,773)	3,938	29,939	(1,609)
Accumulated other comprehensive income	8,852	8,852	8,422	8,834	(26,108)	8,852
Total unitholders equity	101,920	(594,039)	(520,725)	(668,646)	1,783,410	101,920
Total liabilities and unitholders equity	$ 108,565	$ 363,547	$ 550,451	$ 371,790	$ (828,402)	$ 565,951

F-21

Table of Contents

MAGNACHIP SEMICONDUCTOR LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED; TABULAR DOLLARS IN THOUSANDS, EXCEPT UNIT DATA)

Condensed Consolidating Balance Sheet

December 31, 2009

(Successor Company)

	MagnaChip Semiconductor LLC (Parent)	Co-Issuers	Non-Guarantors	Guarantors	Eliminations	Consolidated
Assets						
Current assets						
Cash and cash equivalents	$ 136	$ 24	$ 45,443	$ 19,322	$	$ 64,925
Accounts receivable, net			122,500	66,872	(115,139)	74,233
Inventories, net			59,914	4,098	(605)	63,407
Other receivables	710	718	7,061	3,617	(8,673)	3,433
Prepaid expenses	165	85	14,122	1,150	(2,897)	12,625
Short-term intercompany loan		95,000		95,000	(190,000)	
Other current assets	16	72,614	776	72,868	(142,841)	3,433
Total current assets	1,027	168,441	249,816	262,927	(460,155)	222,056
Property, plant and equipment, net			155,951	386		156,337
Intangible assets, net			49,459	699		50,158
Long-term prepaid expenses			22,576		(12,034)	10,542
Investment in subsidiaries	(608,843)	(690,259)		(517,520)	1,816,622	
Long-term intercompany loan	824,091	806,355		621,000	(2,251,446)	
Other non-current assets		234	5,753	8,251		14,238
Total Assets	$ 216,275	$ 284,771	$ 483,555	$ 375,743	$ (907,013)	$ 453,331
Liabilities and Unitholders Equity						
Current liabilities						
Accounts payable	$	$	$ 106,792	$ 67,975	$ (115,062)	$ 59,705
Other accounts payable	485	5,551	6,337	3,490	(8,673)	7,190
Accrued expenses	100	1,134	89,045	74,753	(142,918)	22,114
Short-term intercompany borrowings			95,000	95,000	(190,000)	
Current portion of long-term debt		618				618
Other current liabilities			2,935	3,899	(2,897)	3,937
Total current liabilities	585	7,303	300,109	245,117	(459,550)	93,564
Long-term borrowings		885,224	621,000	806,354	(2,251,446)	61,132
Accrued severance benefits, net			71,362	1,047		72,409
Other non-current liabilities			8,550	14,020	(12,034)	10,536
Total liabilities	585	892,527	1,001,021	1,066,538	(2,723,030)	237,641

Commitments and contingencies						
Unitholders equity						
Common units	55,135	136,229	39,005	51,976	(227,210)	55,135
Additional paid-in capital	168,700	(735,940)	(539,175)	(734,525)	2,009,640	168,700
Accumulated deficit	(1,963)	(1,871)	(11,636)	(2,056)	15,563	(1,963)
Accumulated other comprehensive income	(6,182)	(6,174)	(5,660)	(6,190)	18,024	(6,182)
Total unitholders equity	215,690	(607,756)	(517,466)	(690,795)	1,816,017	215,690
Total liabilities and unitholders equity	$ 216,275	$ 284,771	$ 483,555	$ 375,743	$ (907,013)	$ 453,331

F-22

Table of Contents

MAGNACHIP SEMICONDUCTOR LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED; TABULAR DOLLARS IN THOUSANDS, EXCEPT UNIT DATA)

Condensed Consolidating Statement of Operations

For the six months ended June 30, 2010

(Successor Company)

	MagnaChip Semiconductor LLC (Parent)	Co-Issuers	Non-Guarantors	Guarantors	Eliminations	Consolidated
Net sales	$	$	$ 369,659	$ 18,605	$ (14,079)	$ 374,185
Cost of sales			256,682	6,917	(3,306)	260,293
Gross profit			112,977	11,688	(10,773)	113,892
Selling, general and administrative expenses	1,178	525	32,855	4,754	(5,440)	33,872
Research and development expenses			42,857	4,282	(6,065)	41,074
Restructuring and impairment charges			603			603
Operating income (loss)	(1,178)	(525)	36,662	2,652	732	38,343
Other income (expense)	3,734	(8,117)	(56,746)	24,864		(36,265)
Income (loss) before income taxes, equity in earnings (loss) of related equity investment	2,556	(8,642)	(20,084)	27,516	732	2,078
Income tax expenses (benefits)			(1,947)	3,671		1,724
Income (loss) before equity in earnings (loss) of related investment	2,556	(8,642)	(18,137)	23,845	732	354
Earnings (loss) of related investment	(2,202)	6,409		(17,851)	13,644	
Net income (loss)	$ 354	$ (2,233)	$ (18,137)	$ 5,994	$ 14,376	$ 354
Net income (loss) attributable to common units	$ 354	$ (2,233)	$ (18,137)	$ 5,994	$ 14,376	$ 354

Table of Contents

MAGNACHIP SEMICONDUCTOR LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED; TABULAR DOLLARS IN THOUSANDS, EXCEPT UNIT DATA)

Condensed Consolidating Statement of Operations

For the six months ended June 28, 2009

(Predecessor Company)

	MagnaChip Semiconductor LLC (Parent)	Co-Issuers	Non-Guarantors	Guarantors	Eliminations	Consolidated
Net sales	$	$	$ 233,645	$ 91,708	$ (84,201)	$ 241,152
Cost of sales			171,059	76,146	(75,283)	171,922
Gross profit			62,586	15,562	(8,918)	69,230
Selling, general and administrative expenses	2,661	41	26,702	6,610	(2,378)	33,636
Research and development expenses			33,338	5,909	(6,019)	33,228
Restructuring and impairment charges				439		439
Operating income (loss)	(2,661)	(41)	2,546	2,604	(521)	1,927
Other income (expense)		2,485	(43,029)	3,293		(37,251)
Income (loss) before income taxes, equity in loss of related equity investment	(2,661)	2,444	(40,483)	5,897	(521)	(35,324)
Income tax expenses			52	4,953		5,005
Income (loss) before equity in loss of related investment	(2,661)	2,444	(40,535)	944	(521)	(40,329)
Loss of related investment	(39,419)	(42,091)		(42,258)	123,768	
Loss from continuing operations	(42,080)	(39,647)	(40,535)	(41,314)	123,247	(40,329)
Income (loss) from discontinued operation, net of taxes			(1,616)	45	(180)	(1,751)
Net loss	$ (42,080)	$ (39,647)	$ (42,151)	$ (41,269)	$ 123,067	$ (42,080)
Dividends accrued on preferred units	6,317					6,317

Loss from continuing operations attributable to common units	$	(48,397)	$	(39,647)	$	(40,535)	$	(41,314)	$	123,247	$	(46,646)
Net loss attributable to common units	$	(48,397)	$	(39,647)	$	(42,151)	$	(41,269)	$	123,067	$	(48,397)

Table of Contents

MAGNACHIP SEMICONDUCTOR LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED; TABULAR DOLLARS IN THOUSANDS, EXCEPT UNIT DATA)

Condensed Consolidating Statement of Cash Flows

For the six months ended June 30, 2010

(Successor Company)

	MagnaChip Semiconductor LLC (Parent)	Co-Issuers	Non-Guarantors	Guarantors	Eliminations	Consolidated
Cash flow from operating activities						
Net income (loss)	$ 354	$ (2,233)	$ (18,137)	$ 5,994	$ 14,376	$ 354
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities						
Depreciation and amortization			29,846	139		29,985
Provision for severance benefits			9,225	155		9,380
Amortization of debt issuance costs		449				449
Loss (gain) on foreign currency translation, net		27,659	29,510	(27,194)		29,975
Gain on disposal of property, plant and equipment, net			(9)			(9)
Loss on disposal of intangible assets, net			7			7
Restructuring and impairment charges			603			603
Unit-based compensation	407		2,010	335		2,752
Cash used for reorganization items			51	1,424		1,475
Loss (earnings) of related investment	2,202	(6,409)		17,851	(13,644)	
Other	13	(11)	757	(19)		740
Changes in operating assets and liabilities						
Accounts receivable, net			(35,220)	11,593	(21,616)	(45,243)
Inventories, net			(2,189)	4,290	(759)	1,342
Other receivables			(12,339)	845	11,613	119
Deferred tax assets				618		618
Accounts payable			15,050	(29,102)	21,594	7,542
Other accounts payable	5,510	2,181	13,022	2,230	(11,613)	11,330
Accrued expenses		4,851	28,509	29,443	(54,962)	7,841
Long term other payable				72	(1,603)	(1,531)
Other current assets	(4,805)	(29,584)	3,737	(24,144)	54,704	(92)
Other current liabilities			(1,043)	(129)		(1,172)
Payment of severance benefits			(2,731)	(29)		(2,760)
Other			467	(1,791)		(1,324)
Net cash provided by (used in) operating activities before reorganization items	3,681	(3,097)	61,126	(7,419)	(1,910)	52,381
Cash used for reorganization items			(51)	(1,424)		(1,475)
Net cash provided by (used in) operating activities	3,681	(3,097)	61,075	(8,843)	(1,910)	50,906
Cash flows from investing activities						
Proceeds from disposal of plant, property and equipment			13			13
Purchases of plant, property and equipment			(20,505)	(4)		(20,509)
Payment for intellectual property registration			(245)			(245)

Decrease in short-term financial instruments				329		329
Decrease in guarantee deposits			219	780		999
Collection of long-term intercompany loans	126,953				(126,953)	
Other			(693)	(85)		(778)
Net cash provided by (used in) investing activities	126,953		(21,211)	1,020	(126,953)	(20,191)
Cash flow from financing activities						
Proceeds from issuance of senior notes		246,685				246,685
Debt issuance costs paid		(8,313)				(8,313)
Repayment of long-term borrowings		(188,703)			126,953	(61,750)
Distribution to unitholders	(130,697)					(130,697)
Net cash provided by (used in) financing activities	(130,697)	49,669			126,953	45,925
Effect of exchanges rate on cash and cash equivalents			(2,859)	694	1,910	(255)
Net increase (decrease) in cash and cash equivalents	(63)	46,572	37,005	(7,129)		76,385
Cash and cash equivalents						
Beginning of the period	136	24	45,443	19,322		64,925
End of the period	$ 73	$ 46,596	$ 82,448	$ 12,193	$	$ 141,310

Table of Contents

MAGNACHIP SEMICONDUCTOR LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED; TABULAR DOLLARS IN THOUSANDS, EXCEPT UNIT DATA)

Condensed Consolidating Statement of Cash Flows

For the six months ended June 28, 2009

(Predecessor Company)

	MagnaChip Semiconductor LLC (Parent)	Co-Issuers	Non-Guarantors	Guarantors	Eliminations	Consolidated
Cash flow from operating activities						
Net loss	$ (42,080)	$ (39,647)	$ (42,151)	$ (41,269)	$ 123,067	$ (42,080)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities						
Depreciation and amortization			20,966	1,201		22,167
Provision for severance benefits			3,594	144		3,738
Amortization of debt issuance costs		412	87			499
Loss (gain) on foreign currency translation, net		(901)	10,898	(239)		9,758
Loss (gain) on disposal of property, plant and equipment			(244)	326		82
Loss on disposal of intangible assets, net			74			74
Unit-based compensation			150	17		167
Noncash reorganization items			59	281		340
Loss of related investment	39,419	42,091		42,258	(123,768)	
Other			451	564	62	1,077
Changes in operating assets and liabilities						
Accounts receivable, net			(25,986)	(14,745)	26,759	(13,972)
Inventories, net			8,404	(1,190)	685	7,899
Other receivables			(47)	3,332	(2,942)	343
Deferred tax assets				1,624	(1)	1,623
Accounts payable			18,446	16,833	(26,759)	8,520
Other accounts payable	2,766		(8,827)	235	2,942	(2,884)
Accrued expenses	(81)	23,638	27,031	25,334	(50,380)	25,542
Long term other payable			35	405	(35)	405
Other current assets	(240)	(25,521)	4,135	(25,548)	47,691	517
Other current liabilities		(95)	6,125	(3,646)	2,697	5,081
Payment of severance benefits			(2,928)	(279)		(3,207)
Other			266	1,669	(2,119)	(184)
Net cash provided by (used in) operating activities	(216)	(23)	20,538	7,307	(2,101)	25,505
Cash flows from investing activities						
Proceeds from disposal of plant, property and equipment			247	297	(262)	282
Proceeds from disposal of intangible assets				1		1
Purchases of plant, property and equipment			(2,322)	(10)	250	(2,082)
Purchase of intangibles, net			(155)			(155)
Increase in restricted cash			(17,524)			(17,524)
Increase in short-term financial instruments				(324)		(324)
Decrease in guarantee deposits			545	63		608
Other			(49)	1,815	(1,763)	3

Net cash provided by (used in) investing activities			(19,258)	1,842	(1,775)	(19,191)
Cash flow from financing activities						
Repayment of long-term borrowings				(1,763)	1,763	
Net cash used in financing activities				(1,763)	1,763	
Effect of exchanges rate on cash and cash equivalents			503	(3,530)	2,113	(914)
Net increase (decrease) in cash and cash equivalents	(216)	(23)	1,783	3,856		5,400
Cash and cash equivalents						
Beginning of the period	216	56	205	3,560		4,037
End of the period	$	$ 33	$ 1,988	$ 7,416	$	$ 9,437

F-26

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Unitholders of

MagnaChip Semiconductor LLC

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, of changes in unitholders equity and of cash flows present fairly, in all material respects, the financial position of MagnaChip Semiconductor LLC and its subsidiaries (the Company) at December 31, 2009 (Successor Company) and the results of their operations and their cash flows for the two-month period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2 to the consolidated financial statements, the United States Bankruptcy Court for the District of Delaware confirmed the Creditors Committee s reorganization plan (the Plan) on September 25, 2009. Confirmation of the Plan resulted in the discharge of all claims against the Company that arose before June 12, 2009 and substantially terminates all rights and interests of equity security holders as provided for in the Plan. The Plan was substantially consummated on November 9, 2009 and the Company emerged from bankruptcy. In connection with its emergence from bankruptcy, the Company adopted fresh-start accounting as of October 25, 2009.

/s/ Samil PricewaterhouseCoopers

Seoul, Korea

March 13, 2010 (except for Note 28, as to which the date is August 4, 2010)

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Unitholders of MagnaChip Semiconductor LLC

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, of changes in unitholders equity and of cash flows present fairly, in all material respects, the financial position of MagnaChip Semiconductor LLC and its subsidiaries (the Company) at December 31, 2008 (Predecessor Company), and the results of their operations and their cash flows for the ten-month period ended October 25, 2009 and for each of the two years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the consolidated financial statements, the Company filed a petition on June 12, 2009 with the United States Bankruptcy Court for the District of Delaware for reorganization under the provisions of Chapter 11 of the Bankruptcy Code. The Company s Creditors Committee s reorganization plan was substantially consummated on November 9, 2009 and the Company emerged from bankruptcy. In connection with its emergence from bankruptcy, the Company adopted fresh-start accounting.

As discussed in Note 4 to the consolidated financial statements, the Company changed the manner in which it accounts for business combinations in 2009.

/s/ Samil PricewaterhouseCoopers

Seoul, Korea

March 13, 2010 (except for Note 28, as to which the date is August 4, 2010)

Table of Contents

MAGNACHIP SEMICONDUCTOR LLC AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	Successor	Predecessor
	December 31, 2009	December 31, 2008
	(In thousands of US dollars, except unit data)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 64,925	$ 4,037
Restricted cash		11,768
Accounts receivable, net	74,233	76,295
Inventories, net	63,407	47,110
Other receivables	3,433	4,701
Prepaid expenses	12,625	9,268
Other current assets	3,433	4,799
Total current assets	222,056	157,978
Property, plant and equipment, net	156,337	183,955
Intangible assets, net	50,158	34,892
Long-term prepaid expenses	10,542	7,714
Other non-current assets	14,238	14,631
Total assets	$ 453,331	$ 399,170
LIABILITIES AND UNITHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 59,705	$ 70,158
Other accounts payable	7,190	15,040
Accrued expenses	22,114	38,554
Short-term borrowings		95,000
Current portion of long-term debt	618	750,000
Other current liabilities	3,937	3,735
Total current liabilities	93,564	972,487
Long-term borrowings	61,132	
Accrued severance benefits, net	72,409	61,939
Other non-current liabilities	10,536	9,874
Total liabilities	237,641	1,044,300
Commitments and contingencies		
Series A redeemable convertible preferred units, $1,000 par value; 60,000 units authorized, 50,091 units issued and 0 unit outstanding at December 31, 2008		
Series B redeemable convertible preferred units, $1,000 par value; 550,000 units authorized, 450,692 units issued, 93,997 units outstanding at December 31, 2008		142,669
Total redeemable convertible preferred units		142,669
Unitholders equity		
Successor common units, no par value, 375,000,000 units authorized, 307,083,996 units issued and outstanding at December 31, 2009	55,135	
		52,923

Predecessor common units, $1 par value; 65,000,000 units authorized, 52,923,483 units issued and outstanding at December 31, 2008		
Additional paid-in capital	168,700	3,150
Accumulated deficit	(1,963)	(995,007)
Accumulated other comprehensive income (loss)	(6,182)	151,135
Total unitholders equity (deficit)	215,690	(787,799)
Total liabilities, redeemable convertible preferred units and unitholders equity	$ 453,331	$ 399,170

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

F-29

Table of Contents

MAGNACHIP SEMICONDUCTOR LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Successor	Predecessor		
	Two-Month Period Ended December 31, 2009	Ten-Month Period Ended October 25, 2009	Year Ended December 31, 2008	Year Ended December 31, 2007
	(In thousands of US dollars, except unit data)			
Net sales	$ 111,082	$ 448,984	$ 601,664	$ 709,508
Cost of sales	90,408	311,139	445,254	578,857
Gross profit	20,674	137,845	156,410	130,651
Selling, general and administrative expenses	14,540	56,288	81,314	82,710
Research and development expenses	14,741	56,148	89,455	90,805
Restructuring and impairment charges		439	13,370	12,084
Operating income (loss) from continuing operations	(8,607)	24,970	(27,729)	(54,948)
Other income (expenses)				
Interest expense, net (contractual interest, net of $47,828 for the ten-month period ended October 25, 2009)	(1,258)	(31,165)	(76,119)	(60,311)
Foreign currency gain (loss), net	9,338	43,437	(210,406)	(4,732)
Reorganization items, net		804,573		
	8,080	816,845	(286,525)	(65,043)
Income (loss) from continuing operations before income taxes	(527)	841,815	(314,254)	(119,991)
Income tax expenses	1,946	7,295	11,585	8,835
Income (loss) from continuing operations	(2,473)	834,520	(325,839)	(128,826)
Income (loss) from discontinued operations, net of taxes	510	6,586	(91,455)	(51,724)
Net income (loss)	$ (1,963)	$ 841,106	$ (417,294)	$ (180,550)
Dividends accrued on preferred units (contractual dividends of $11,819 for the ten-month period ended October 25, 2009)		6,317	13,264	12,031
Income (loss) from continuing operations attributable to common units	$ (2,473)	$ 828,203	$ (339,103)	$ (140,857)
Net income (loss) attributable to common units	$ (1,963)	$ 834,789	$ (430,558)	$ (192,581)
Earnings (loss) per common unit from continuing operations Basic and diluted	$ (0.01)	$ 15.65	$ (6.43)	$ (2.69)
Earnings (loss) per common unit from discontinued operations Basic and diluted	$ 0.00	$ 0.12	$ (1.73)	$ (0.99)
Earnings (loss) per common unit Basic and diluted	$ (0.01)	$ 15.77	$ (8.16)	$ (3.68)

Weighted average number of units Basic and diluted	300,862,764	52,923,483	52,768,614	52,297,192

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

MAGNACHIP SEMICONDUCTOR LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN UNITHOLDERS EQUITY

	Common Units		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	Units	Amount				
	(In thousands of US dollars, except unit data)					
Balance at January 1, 2007	52,720,784	$ 52,721	$ 2,451	$ (370,314)	$ 30,601	$ (284,541)
(Predecessor Company)						
Exercise of unit options	124,938	125	26			151
Repurchase of common units	(1,500)	(2)	(4)			(6)
Unit-based compensation			604			604
Dividends accrued on preferred units				(12,031)		(12,031)
Impact on beginning accumulated deficit upon adoption of FIN 48				(1,554)		(1,554)
Comprehensive loss:						
Net loss				(180,550)		(180,550)
Fair valuation of derivatives					(3,477)	(3,477)
Foreign currency translation adjustments					3,925	3,925
Total comprehensive loss						(180,102)
Balance at December 31, 2007	52,844,222	$ 52,844	$ 3,077	$ (564,449)	$ 31,049	$ (477,479)
(Predecessor Company)						
Exercise of unit options	161,460	161	22			183
Repurchase of common units	(82,199)	(82)	(414)			(496)
Unit-based compensation			465			465
Dividends accrued on preferred units				(13,264)		(13,264)
Comprehensive loss:						
Net loss				(417,294)		(417,294)
Fair valuation of derivatives					(864)	(864)
Foreign currency translation adjustments					120,950	120,950
Total comprehensive loss						(297,208)
Balance at December 31, 2008	52,923,483	$ 52,923	$ 3,150	$ (995,007)	$ 151,135	$ (787,799)
(Predecessor Company)						
Unit-based compensation			233			233
Cancellation of the Predecessor Company s unit options			166			166
Dividends accrued on preferred units				(6,317)		(6,317)
Comprehensive income:						
Net income				841,106		841,106
Foreign currency translation adjustments					(30,395)	(30,395)
Unrealized gains on investments					340	340
Total comprehensive income						811,051
Balance at October 25, 2009	52,923,483	$ 52,923	$ 3,549	$ (160,218)	$ 121,080	$ 17,334
(Predecessor Company)						
Fresh-start adjustments:						
Cancellation of the Predecessor Company s common units	(52,923,483)	(52,923)	(3,549)			(56,472)

Elimination of the Predecessor Company s accumulated deficit and accumulated other comprehensive income				160,218	(121,080)	39,138
Issuance of new equity interests in connection with emergence from Chapter 11	299,999,996	49,539	166,322			215,861
Issuance of new warrants in connection with emergence from Chapter 11			2,533			2,533
Balance at October 25, 2009	299,999,996	$ 49,539	$ 168,855	$	$	$ 218,394
(Successor Company)						
Unit-based compensation	7,084,000	5,596	(155)			5,441
Comprehensive income:						
Net loss				(1,963)		(1,963)
Foreign currency translation adjustments					(6,298)	(6,298)
Unrealized gains on investments					116	116
Total comprehensive loss						(8,145)
Balance at December 31, 2009	307,083,996	$ 55,135	$ 168,700	$ (1,963)	$ (6,182)	$ 215,690
(Successor Company)						

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

MAGNACHIP SEMICONDUCTOR LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Successor	Predecessor		
	Two-Month Period Ended December 31, 2009	Ten-Month Period Ended October 25, 2009	Year Ended December 31, 2008	Year Ended December 31, 2007
	(In thousands of US dollars)			
Cash flows from operating activities				
Net income (loss)	$ (1,963)	$ 841,106	$ (417,294)	$ (180,550)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities				
Depreciation and amortization	11,218	38,255	71,960	163,434
Provision for severance benefits	1,851	8,835	14,026	18,834
Amortization of debt issuance costs		836	16,290	3,919
Loss (gain) on foreign currency translation, net	(10,077)	(44,224)	215,571	5,398
Loss (gain) on disposal of property, plant and equipment, net	17	95	(3,094)	(68)
Loss (gain) on disposal of intangible assets, net	5	(9,230)		(3,630)
Restructuring and impairment charges		(1,120)	42,539	10,106
Unit-based compensation	2,199	233	465	604
Cash used for reorganization items	4,263	1,076		
Noncash reorganization items		(805,649)		
Other	(667)	2,722	(400)	51
Changes in operating assets and liabilities				