ACCURAY INC
Form DEF 14A
October 11, 2013

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant ý

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Check the appropriate box:

o Preliminary Proxy Statement

o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

ý Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material under §240.14a-12

ACCURAY INCORPORATED

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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**NOTICE OF
2013 ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON NOVEMBER 21, 2013**

To our Stockholders:

You are cordially invited to attend the 2013 Annual Meeting of Stockholders of Accuray Incorporated, a Delaware corporation ("Accuray" or the "Company"), which will be held at the Country Inn & Suites By Carlson, 1300 Chesapeake Terrace, Sunnyvale CA 94089 on Thursday, November 21, 2013 at 9:00 am PST. We are holding the annual meeting for the following purposes:

1. To elect two Class I directors named in the proxy statement to hold office until our 2016 Annual Meeting of Stockholders, or until their respective successors have been duly elected or appointed;

2. To hold an advisory vote to approve the compensation of our named executive officers;

3. To ratify the appointment of Grant Thornton LLP as our independent registered public accounting firm for the fiscal year ending June 30, 2014; and

4. To transact any other business as may properly come before the meeting, including any motion to adjourn to a later date to permit further solicitation of proxies, if necessary, or any adjournment or postponement of the meeting.

These items of business to be transacted at the meeting are more fully described in the Proxy Statement. The annual meeting will begin promptly at 9:00 a.m. PST and check-in will begin at 8:30 a.m. PST. Only holders of record and beneficial owners of shares of our common stock at the close of business on October 4, 2013, the record date, are entitled to notice of, to attend and to vote at the annual meeting and any adjournments or postponements of the annual meeting. If a beneficial owner wishes to vote in person at the meeting, you must obtain a "legal proxy" from the broker, trustee or other nominee that holds your shares, giving you the right to vote your shares at the meeting.

It is important that you use this opportunity to take part in the affairs of Accuray by voting on the business to come before this meeting. After reading the Proxy Statement (the "Proxy Statement") and Annual Report on Form 10-K for the fiscal year ended June 30, 2013 (the "Annual Report"), please promptly mark, sign, date and return the enclosed proxy card in the prepaid envelope to ensure that your shares are represented. We also provide our stockholders the opportunity to receive stockholder communications electronically. If you elected for electronic delivery of the Proxy Statement and Annual Report, you will not be receiving a proxy card and must vote electronically. For more information, see "*Why did I receive a Notice of Internet Availability of Proxy Materials*" in the Proxy Statement.

For a period of at least 10 days prior to the annual meeting, a complete list of stockholders entitled to vote at the annual meeting will be available for review by any stockholder during normal business hours at our principal executive office located at 1310 Chesapeake Terrace, Sunnyvale, California 94089.

All stockholders are cordially invited to attend the annual meeting in person. Even if you plan to attend the annual meeting, please cast your vote as instructed in the Notice of Internet Availability of Proxy Materials as promptly as possible. If you choose to receive paper copies of your proxy materials, including the proxy card, please complete, sign and date the proxy card and return it promptly in the postage-paid return envelope in order to ensure that your vote will be counted if you later decide not to, or are unable to, attend the annual meeting. Even if you have given your proxy, you may still attend and vote in person at the meeting.

By order of the Board of Directors,

/s/ JOSHUA H. LEVINE

Joshua H. Levine
President and Chief Executive Officer

Sunnyvale, California
October 11, 2013

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PROXY STATEMENT FOR
ACCURAY INCORPORATED
2013 ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD ON NOVEMBER 21, 2013

This Proxy Statement is furnished to our stockholders of record as of October 4, 2013, the record date, in connection with the solicitation of proxies by our Board of Directors for use at our 2013 Annual Meeting of Stockholders, to be held at Country Inn & Suites By Carlson, 1300 Chesapeake Terrace, Sunnyvale CA 94089 on Thursday, November 21, 2013 at 9:00 a.m. PST. This Proxy Statement and the proxy card are first being made available to our stockholders on or about October 11, 2013. Our Company's fiscal year ended on June 30, 2013.

QUESTIONS AND ANSWERS REGARDING THIS SOLICITATION AND VOTING AT THE ANNUAL MEETING

Why did I receive a Notice of Internet Availability of Proxy Materials?

We are pleased to again be using the U.S. Securities and Exchange Commission (the "SEC") rule that allows companies to furnish proxy materials to their stockholders primarily over the Internet. We are furnishing proxy materials to our stockholders primarily via the Internet, instead of mailing printed copies of those materials to each stockholder. On October 11, 2013, we mailed to our stockholders (other than those who previously requested electronic or paper delivery) a Notice of Internet Availability of Proxy Materials containing instructions on how to access our proxy materials, including this Proxy Statement and our Annual Report. The Notice of Internet Availability of Proxy Materials also instructs you on how to access your proxy card to vote through the Internet or by telephone. This process is designed to expedite stockholders' receipt of proxy materials, lower the cost of the annual meeting, and help conserve natural resources. However, if you would prefer to receive printed proxy materials, please follow the instructions included in the Notice of Internet Availability of Proxy Materials. If you have previously elected to receive our proxy materials electronically, you will continue to receive these materials via e-mail unless you elect otherwise. If you received your annual meeting materials via e-mail, the e-mail contained voting instructions and links to the Annual Report and the Proxy Statement on the Internet, which are both available at: *https://materials.proxyvote.com/004397*.

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Why am I receiving access to these proxy materials?	You are receiving access to this Proxy Statement from us because you were a stockholder of record at the close of business on the record date of October 4, 2013. As a stockholder of record, you are invited to attend our annual meeting of stockholders and are entitled to vote on the items of business described in this Proxy Statement. This Proxy Statement contains important information about the annual meeting and the items of business to be transacted at the annual meeting. You are strongly encouraged to read this Proxy Statement, which includes information that you may find useful in determining how to vote.
Who is entitled to attend and vote at the annual meeting?	Only stockholders of record of shares of our common stock at the close of business on October 4, 2013, the record date, are entitled to notice of, to attend and to vote at the annual meeting and any adjournments or postponements of the annual meeting.
How many shares are outstanding?	On the record date, 74,870,348 shares of our common stock were issued and outstanding. Each share of common stock outstanding on the record date is entitled to one vote.
How many shares must be present or represented to conduct business at the annual meeting (that is, what constitutes a quorum)?	The presence at the annual meeting, in person or represented by proxy, of the holders of at least a majority of the shares of our common stock issued and outstanding on the record date and entitled to vote at the annual meeting will constitute a quorum for the transaction of business. If, however, a quorum is not present, in person or represented by proxy, then either the chair of the annual meeting or the stockholders entitled to vote at the annual meeting may adjourn the annual meeting until a later time.
What items of business will be voted on at the annual meeting?	The items of business to be voted on at the annual meeting are as follows: 1. The election of two Class I directors named in the Proxy Statement to hold office until our 2016 Annual Meeting of Stockholders, or until their respective successors have been duly elected or appointed; 2. An advisory vote to approve the compensation of our named executive officers; and 3. The ratification of the appointment of Grant Thornton LLP as our independent registered public accounting firm for the fiscal year ending June 30, 2014.

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What happens if additional matters are presented at the annual meeting?	The only items of business that our Board of Directors intends to present at the annual meeting are set forth in this Proxy Statement. As of the date of this Proxy Statement, no stockholder has advised us of the intent to present any other matter, and we are not aware of any other matters to be presented at the annual meeting. If any other matter or matters are properly brought before the annual meeting, the person(s) named as your proxyholder(s) will have the discretion to vote your shares on the matters in accordance with their best judgment and as they deem advisable.
What shares can I vote at the annual meeting?	You may vote all of the shares you owned as of October 4, 2013, the record date, including shares held directly in your name as the *stockholder of record* and all shares held for you as the *beneficial owner* through a broker, trustee or other nominee such as a bank.
What is the difference between holding shares as a stockholder of record and as a beneficial owner?	Most of our stockholders hold their shares through a broker or other nominee rather than directly in their own name. As summarized below, there are some distinctions between shares held of record and those owned beneficially. **Stockholders of Record.** If your shares are registered directly in your name with our transfer agent, Computershare Shareowner Services, you are considered, with respect to those shares, the *stockholder of record*, and we are sending these proxy materials directly to you. As the *stockholder of record*, you have the right to vote in person at the annual meeting or direct the proxyholder how to vote your shares on your behalf at the annual meeting by fully completing, signing and dating the enclosed proxy card and returning it to us in the enclosed postage-paid return envelope, or by following the procedures for voting on the Internet or by phone.

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	Beneficial Owner. If your shares are held in a brokerage account or by a trustee or another nominee, you are considered the *beneficial owner* of those shares held *in street name* for your account, and these proxy materials are being made available to you together with a voting instruction card by your broker, trustee or other nominee. As the beneficial owner, you have the right to direct your broker, trustee or nominee to vote your shares as you instruct in the voting instruction card. The broker, trustee or other nominee may either vote in person at the annual meeting or grant a proxy and direct the proxyholder to vote your shares at the annual meeting as you instruct in the voting instruction card. You may also vote in person at the annual meeting, but only after you obtain a "legal proxy" from the broker, trustee or other nominee that holds your shares, giving you the right to vote your shares at the annual meeting. Your broker, trustee or other nominee has enclosed or provided a voting instruction card for you to use in directing the broker, trustee or other nominee how to vote your shares.
How can I vote my shares without attending the annual meeting?	As discussed previously, whether you hold shares directly as the stockholder of record or as a beneficial owner, you may direct how your shares are voted without attending the annual meeting by voting on the Internet, voting by phone, or completing and returning the proxy card or voting instruction card. If you provide specific instructions with regard to items of business to be voted on at the annual meeting, your shares will be voted as you instruct on those items. If you just sign your proxy card or voting instruction card with no further instructions, or if you electronically transmit your voting instructions but do not direct how to vote on each item, your shares will be counted as votes in accord with the Board of Directors' recommendation.
How can I attend the annual meeting?	Whether you hold shares in your name as the stockholder of record or beneficially in street name, you should be prepared to present photo identification for admittance to the annual meeting. Please also note that if you are not a stockholder of record but hold shares through a broker, trustee or nominee, you will need to provide proof of beneficial ownership as of the record date, such as your most recent brokerage account statement, a copy of the voting instruction card provided by your broker, trustee or nominee, or other similar evidence of ownership. The annual meeting will begin promptly at 9:00 a.m. PST. Check-in will begin at 8:30 a.m. PST. ***Even if you plan to attend the annual meeting, we recommend that you also vote by Internet, vote by telephone, or complete, sign and date the proxy card or voting instruction card and return it promptly in order to ensure that your vote will be counted if you later decide not to, or are unable to, attend the annual meeting.***

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Can I change my vote or revoke my proxy?	You may change your vote or revoke your proxy at any time prior to the vote at the annual meeting. If you are the stockholder of record, you may change your vote by granting a new proxy bearing a later date, which automatically revokes the earlier proxy, by providing a written notice of revocation to our Corporate Secretary prior to your shares being voted, or by attending the annual meeting and voting in person. Attendance at the annual meeting will not cause your previously granted proxy to be revoked unless you specifically so request. If you are a beneficial owner, you may change your vote by submitting a new voting instruction card to your broker, trustee or nominee, or, if you have obtained a legal proxy from your broker, trustee or nominee giving you the right to vote your shares, by attending the annual meeting and voting in person.
What is a "broker non-vote"?	Under the rules that govern brokers that have record ownership of our shares of common stock that are held in street name for the benefit of their clients, who are the beneficial owners of the shares, brokers and banks have the discretion to vote such shares on routine matters. The ratification of the appointment of independent registered public accounting firms is considered a routine matter. Therefore, if you do not otherwise instruct your broker or bank, the broker or bank may vote your shares on this matter. However, your broker or bank will not be able to vote your shares for the election of directors or the advisory vote to approve the compensation of named executive officers without your specific instruction because these are not considered routine matters. A "*broker non-vote*" occurs when a broker or bank does not receive timely instructions from the beneficial owner and therefore such broker or bank expressly indicates on a proxy card that it is not voting the uninstructed shares on a non-routine matter.
How are "broker non-votes" counted?	Broker non-votes will be counted as present for the purpose of determining the presence or absence of a quorum for the transaction of business but they will *not* be counted as "votes cast" in tabulating the voting result for any particular proposal.

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What happens if the annual meeting is adjourned?	If our annual meeting is adjourned to another time or place, no additional notice will be given of the adjourned meeting if the time and place of the adjourned meeting is announced at the annual meeting, unless the adjournment is for more than 30 days, in which case a notice of the adjourned meeting will be given to each stockholder of record entitled to vote at the adjourned meeting. At the adjourned meeting, we may transact any items of business that might have been transacted at the annual meeting.
Who will serve as inspector of elections?	A representative of Computershare Shareowner Services, our transfer agent, will tabulate the votes and act as inspector of elections at the annual meeting.
What should I do in the event that I receive more than one set of proxy materials?	You may receive more than one copy of the Notification of Internet Availability of Proxy Materials or more than one set of these proxy solicitation materials, including multiple copies of this Proxy Statement and multiple proxy cards or voting instruction cards. For example, if you hold your shares in more than one brokerage account, you may receive a separate voting instruction card for each brokerage account in which you hold shares. In addition, if you are a stockholder of record and your shares are registered in more than one name, you may receive more than one Notification of Internet Availability of Proxy Materials or proxy card. Please vote on the Internet, by telephone, or complete, sign, date and return each proxy card and voting instruction card that you receive to ensure that all your shares are voted.
Who is soliciting my vote and who will bear the costs of this solicitation?	The proxy is being solicited on behalf of our Board of Directors. We will bear the entire cost of solicitation of proxies, including preparation, Internet posting, assembly, printing and mailing of this Proxy Statement. In addition to solicitation by mail, our directors, officers and employees may also solicit proxies in person, by telephone, by electronic mail or by other means of communication. We will not pay any additional compensation to our directors, officers or other employees for soliciting proxies. We have retained MacKenzie Partners, Inc. to assist in the solicitation of proxies for a fee of approximately $15,000 plus reasonable out-of-pocket costs and expenses. Copies of the proxy materials will be furnished to brokerage firms, banks, trustees, custodians and other nominees holding beneficially owned shares of our common stock, who will forward the proxy materials to the beneficial owners. We are required to reimburse brokerage firms, banks, trustees, custodians and other agents for the costs of forwarding the proxy materials.

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Where can I find the voting results of the annual meeting?	We intend to announce preliminary voting results at the annual meeting, and publish the final voting results in a current report on Form 8-K filed with the SEC within four business days following the annual meeting.
What is the deadline for submitting proposals for consideration at next year's annual meeting of stockholders or to nominate individuals to serve as directors?	As a stockholder, you may be entitled to present proposals for action at a future annual meeting of stockholders, including director nominations. Please refer to "*Stockholder Proposals*" and "*Nomination of Director Candidates*" below.

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PROPOSAL ONE ELECTION OF DIRECTORS

Classes of our Board of Directors

Our Amended and Restated Certificate of Incorporation provides that our Board of Directors shall be divided into three classes, designated as Class I, Class II and Class III, respectively, with the classes of directors serving for staggered three-year terms. Our proposed Board of Directors consists of eight directors, with two directors in Class I, three directors in Class II and three directors in Class III. Proxies cannot be voted for more than two persons.

The names of each continuing member of our Board of Directors, including each nominee for election to our Board of Directors, the classes in which they serve, their ages as of July 31, 2013, principal occupation and length of service on our Board of Directors, are as follows:

Name	Term Expires	Age	Principal Occupation	Director Since
Class I Directors				
Robert S. Weiss	2013	66	Chief Executive Officer and President, The Cooper Companies, Inc.	2007
Richard Pettingill	2013	65	Retired President and Chief Executive Officer of Allina Hospitals and Clinics and California Division of Kaiser Foundation Health Plans and Hospitals and Board Member of MAKO Surgical Corp. and Tenet Healthcare Corporation	2012
Class II Directors				
Louis J. Lavigne, Jr.	2014	65	Independent management consultant and Board Member, Allergan, Inc., Depomed, Inc., DocuSign, Inc. and SafeNet, Inc.	2009
Dennis L. Winger	2014	65	Retired Chief Financial Officer and Board Member, Nektar Therapeutics and Pacira Pharmaceuticals, Inc.	2009
Jack Goldstein, Ph.D.	2014	66	Independent Consultant, Chairman of the Board of Directors of OncoGenex Pharmaceuticals, Inc.	2010
Class III Directors				
Elizabeth Dávila	2015	69	Retired Chief Executive Officer and Board Member, NuGEN Technologies, Inc. and Afaxys, Inc.	2008
Joshua H. Levine	2015	55	President and Chief Executive Officer, Accuray Incorporated	2012
Emad Rizk, M.D.	2015	50	President of McKesson Health Solutions	2013

Director Nominees

Our Board of Directors has nominated Mr. Weiss and Mr. Pettingill for election as Class I directors. Each nominee for director has consented to being named in this Proxy Statement and has indicated a willingness to serve if elected. If a nominee is unavailable for election, the persons named as proxyholders will use their discretion to vote for any substitute nominee in accordance with their best judgment, as they deem advisable. Listed below are the biographies of each director nominee. The biographies include information regarding each nominee's service as a director of the Company, business experience and principal occupations for at least the past five years, director positions at public companies held currently or at any time during the past five years, and the experiences, qualifications, attributes or skills that led the Nominating and Corporate Governance Committee to recommend, and the Board of Directors to determine, that the person should serve as a director for the Company.

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Robert S. Weiss has served as a member of our Board of Directors since January 2007. Since November 2007, Mr. Weiss has served as the Chief Executive Officer of The Cooper Companies, Inc. ("Cooper"), a global specialty medical products company. He was also given the title of President of Cooper in March 2008. Mr. Weiss has served in various senior executive management positions with Cooper since 1989. From January 2005 through October 2007, Mr. Weiss served as the Executive Vice President and Chief Operating Officer of Cooper, and from March 2007 to March 2008, he also served as President of CooperVision, Cooper's contact lens subsidiary. Prior to that, he served as Cooper's Chief Financial Officer from September 1989 to January 2005 and held the additional title of Executive Vice President from October 1995 until November 2007. From March 1984 until October 1995 he served at Cooper in various other roles, including Senior Vice President, Vice President and Corporate Controller. Mr. Weiss has also served on the board of directors of Cooper since 1996. Mr. Weiss holds a B.S. in Accounting from the University of Scranton in Scranton, Pennsylvania.

As a current Chief Executive Officer and former Chief Financial Officer of a publicly traded medical products company, Mr. Weiss brings to our Board of Directors extensive experience in the healthcare industry in finance, accounting, management, strategy, manufacturing, and public company governance.

Richard Pettingill has served as a member of our Board of Directors since May 2012. Mr. Pettingill served as the President and Chief Executive Officer of Allina Hospitals and Clinics, Minnesota's largest healthcare organization, from 2002 until his retirement in 2009. While in this role, he also served on the board of directors of the Minnesota Hospital Association and the Minnesota Business Partnership. Prior to joining Allina Hospitals and Clinics, Mr. Pettingill served as President and Chief Executive Officer of the California Division of Kaiser Foundation Health Plans and Hospitals, one of the largest not-for-profit managed healthcare companies in the United States, from 1996 to 2002. Mr. Pettingill currently serves on the boards of directors of MAKO Surgical Corp., a medical devices company, and Tenet Healthcare Corporation, a medical services provider. Mr. Pettingill received a bachelor's degree from San Diego State University and a master's degree in health care administration from San Jose State University. He served as a 2010 Fellow in the Advanced Leadership Initiative program at Harvard University.

As the former chief executive officer of a major hospital system and a member of other public company boards, Mr. Pettingill has extensive leadership experience in the healthcare industry, including experience in the areas of business development, strategy and corporate governance, and can represent the customer perspective.

If elected, Mr. Weiss and Mr. Pettingill will hold office as Class I directors until our annual meeting of stockholders to be held in 2016, or until their earlier resignation or removal.

How Votes Are Counted

Stockholders are not entitled to cumulate their votes in the election of directors or with respect to any matter submitted to a vote of the stockholders. To be elected, directors must receive a majority of the votes cast (the number of shares voted "FOR" a director nominee must exceed the number of votes cast "AGAINST" that nominee). You may vote either "FOR" or "AGAINST" each director nominee or you may abstain. A properly executed proxy marked "ABSTAIN" with respect to any director will be counted for purposes of determining whether there is a quorum, but it will not be counted for purposes of determining the number of votes cast with respect to the election of such a director, and thus it will not have the same effect as a vote against a director nominee.

Board of Directors' Recommendation

OUR BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE "FOR" EACH OF THE TWO NOMINEES FOR CLASS I DIRECTOR LISTED ABOVE.

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Directors Whose Terms Extend Beyond the 2013 Annual Meeting

Listed below are the biographies of each of our Class II and Class III directors. The biographies include information regarding each director's service as a director of the Company, business experience and principal occupations for at least the past five years, director positions at public companies held currently or at any time during the past five years, and the experiences, qualifications, attributes or skills that led the Nominating and Corporate Governance Committee to recommend, and the Board of Directors to determine, that the person should serve as a director for the Company. There are no family relationships among any of our directors or executive officers.

Elizabeth Dávila has served as a member of our Board of Directors since February 2008 and as Vice Chairperson of our Board of Directors since September 2008. Ms. Dávila was the former Chairman and Chief Executive Officer of VISX, Incorporated ("VISX"), a manufacturer of laser vision correction systems, which was acquired by Advanced Medical Optics in May 2005. Prior to becoming Chairman and Chief Executive Officer of VISX in 2001, she served as President and Chief Operating Officer of VISX from 1999 to 2001 and as Executive Vice President and Chief Operating Officer from 1995 to 1999. Ms. Dávila currently serves as a member of the board of directors of NuGEN Technologies, Inc., a private company that develops and commercializes rapid, high-sensitivity and high-throughput amplification and labeling systems for genomic analysis, and Afaxys, Inc., a private company that supplies family planning providers with pharmaceuticals and supplies. Within the last five years, Ms. Dávila also served on the public company boards of directors of Advanced Medical Optics, Inc. (now Abbott Medical Optics) and Cholestech Corp., medical device companies that were acquired in 2009 and 2007, respectively. Ms. Dávila holds a B.S. in Chemistry from St. Mary's College in Notre Dame, Indiana, an M.S. in Chemistry from the University of Notre Dame in Notre Dame, Indiana, and an M.B.A. from Stanford University in Palo Alto, California.

As a former Chief Executive Officer of VISX and a member and former member of several public and private company boards, Ms. Dávila has extensive healthcare industry experience in management, business development, operations, strategy and capital equipment sales.

Louis J. Lavigne, Jr. has served as a member of our Board of Directors since September 2009 and as the Chairperson of our Board of Directors since April 2010. Since 2005, Mr. Lavigne has been a Managing Director of Lavrite, LLC, a management consulting firm specializing in the areas of corporate finance, accounting, growth strategy and management. From 1983 to 2005, Mr. Lavigne served in various executive capacities with Genentech, Inc., a healthcare company, namely, Executive Vice President and Chief Financial Officer from 1997 to 2005; Senior Vice President and Chief Financial Officer from 1994 to 1997; Vice President and Chief Financial Officer from 1988 to 1994; Vice President from 1986 to 1988; and Controller from 1983 to 1986. Mr. Lavigne also serves on the boards of directors of Allergan, Inc., a publicly traded, technology-driven, global health care company that provides specialty pharmaceutical products worldwide, Depomed, Inc., a publicly traded specialty pharmaceutical company, DocuSign, Inc., a private eSignature transaction management company, Novacure Limited, a private commercial stage oncology company and SafeNet, Inc., a private information security company. Mr. Lavigne previously served as a director of the following public companies: Arena Pharmaceuticals, Inc., BMC Software, Inc., Equinix, Inc. and Kyphon, Inc. Mr. Lavigne also serves as a faculty member of Babson College's Bio-Pharma: Mastering the Business of Science Program and as a Trustee of Babson College (and Babson Global) and Board Member of Children's Hospital Oakland. Mr. Lavigne holds a B.S. in Finance from Babson College in Babson Park, Massachusetts, and an M.B.A. from Temple University in Philadelphia, Pennsylvania.

As a former Chief Financial Officer of a large, complex publicly traded company in the healthcare industry, and a current and former member of several public company boards, Mr. Lavigne brings to our Board of Directors extensive experience in business operations and management, strategy, finance, accounting and public company governance.

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Joshua H. Levine has served as our President and Chief Executive Officer and as a member of our Board of Directors since October 2012. From November 2011 to the time he joined the Company in October 2012, Mr. Levine attended to personal matters. Mr. Levine served from June 2011 to October 2011 as the President and Chief Executive Officer and as a member of the Board of Directors of Immucor Corporation, a diagnostics manufacturer of automated instrumentation and reagents used in transfusion medical procedures. From August 2010 through May 2011, Mr. Levine worked as an independent consultant. Prior thereto, Mr. Levine served in several executive capacities during his 14-year tenure with Mentor Corporation, a medical device/surgical implant manufacturer that was acquired by Johnson & Johnson in early 2009. At Mentor Corporation, post acquisition by Johnson & Johnson, Mr. Levine served as Worldwide President from January 2009 to July 2010 and, prior to acquisition by Johnson & Johnson, as President and Chief Executive Officer and a member of the Board of Directors from June 2004 to January 2009. Mr. Levine holds a B.A. from the University of Arizona.

Mr. Levine's qualifications to serve on our Board of Directors include, among other skills and qualifications, his strategic business development skills, commercial leadership experience, and executive vision. In addition, Mr. Levine brings expertise in the healthcare industry from years of experience as a chief executive officer with other medical device manufacturing companies.

Jack Goldstein, Ph.D., has served as a member of our Board of Directors since May 2010. Dr. Goldstein has been an independent consultant since 2006 specializing in human medical diagnostics, biopharmaceuticals and medical devices. He served as President and Chief Operating Officer of Chiron Corporation from 2004 until its acquisition by Novartis in 2006, and from 2002 to 2004 he served as President of Chiron's Blood Testing Division. From 2000 to 2002, he was a general partner at Windamere Venture Partners, a private venture capital investment fund. From 1997 to 2001, he served as President and Chief Executive Officer at Applied Imaging Corporation, and from 1999 until 2002, he also served as Chairman of the Board of Applied Imaging. From 1986 to 1997, Dr. Goldstein served in various executive positions at Johnson & Johnson, including President of Ortho Diagnostic Systems and Executive Vice President of Professional Diagnostics. Dr. Goldstein currently serves as Chairman of the Board of Directors of OncoGenex Pharmaceuticals, Inc. In the past five years, Dr. Goldstein has also served on the following public company boards of directors: Immucor, Inc., Illumina, Inc. and Orasure Technologies, Inc. Dr. Goldstein holds a B.A. in biology from Rider University and an M.S. in immunology and a Ph.D. in microbiology from St. John's University.

As a former executive of several life sciences companies and member of other health care industry public company boards, Dr. Goldstein has extensive industry experience in management, strategy, operations, business development, and capital equipment sales and marketing. Dr. Goldstein also has relevant scientific, research and development and manufacturing expertise.

Emad Rizk, M.D., has served as a member of our Board of Directors since March 2013. Since 2003, Dr. Rizk has served as the President of McKesson Health Solutions ("McKesson"), a division of McKesson Corporation. Prior to joining McKesson, Dr. Rizk served as the lead partner and global director, medical management/pharmacy for Deloitte Consulting from 1994 to 2003. Dr. Rizk currently serves on the board of directors of Disease Management Association of America, a nonprofit organization representing all aspects of the disease management community, and is a past vice-chairman of the National Clinical Advisory Board, a healthcare organization focused on providing insight into the future direction of healthcare, management and delivery of patient care. Dr. Rizk attended City University of New York for Pre-Medicine and received a Doctor of Medicine degree from Mt. Sinai (Clinicals)/University of Santiago.

As the current president of a major health care services company and a world renowned healthcare industry expert, Dr. Rizk brings over 25 years of experience in working with payers,

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physicians and hospital systems. Dr. Rizk brings extensive leadership experience, strong track record of growth and an intimate understanding of the needs and concerns of all healthcare industry stakeholders.

Dennis L. Winger has served as a member of our Board of Directors since September 2009. Mr. Winger most recently served as Senior Vice President and Chief Financial Officer of Applied Biosystems, Inc. from 1997 until his retirement in 2008. Mr. Winger has also served on the boards of directors of Nektar Therapeutics, a biopharmaceutical company, since 2009 and Pacira Pharmaceuticals, a specialty pharmaceutical company since 2013. In the last five years, Mr. Winger also served as a director of Cell Genesys, Inc., A.P. Pharma Inc., Vertex Pharmaceuticals and Cephalon, Inc. Mr. Winger also serves on the Board of Trustees of Siena College. Mr. Winger holds a B.A. in History from Siena College in Loudonville, New York and an M.B.A. from Columbia University in New York, New York.

As a former Chief Financial Officer of multiple publicly traded life sciences companies, and a member of multiple public company boards, Mr. Winger has extensive experience in finance, accounting, operations, strategy, and public company governance.

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PROPOSAL TWO ADVISORY VOTE TO APPROVE THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS ("SAY-ON-PAY VOTE")

General

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act"), which was enacted on July 21, 2010, enables our stockholders to approve, on an advisory (non-binding) basis, no less frequently than once every three years, the compensation of our named executive officers as disclosed in this Proxy Statement in accordance with the SEC's rules. This vote is not intended to address any specific item of compensation, but rather the overall compensation of the Company's named executive officers and the philosophy, policies and practices described in this Proxy Statement. Our Compensation Committee and Board of Directors have decided to hold advisory votes on the approval of executive compensation annually until the next advisory vote on frequency occurs. Accordingly, unless the Compensation Committee and Board of Directors modifies its policy on the frequency of future votes, the next advisory vote to approve executive compensation will be held at the 2014 annual meeting of stockholders. In this proposal, we are asking our stockholders to provide advisory approval of the compensation of Accuray's named executive officers ("NEOs," or each an "NEO"), as such compensation is described in the "*Compensation Discussion and Analysis*" section, the tabular disclosure regarding such compensation, and the accompanying narrative disclosure set forth in this Proxy Statement, beginning on page 20.

Summary of Fiscal 2013 Executive Compensation Programs

In fiscal 2013, our executive compensation programs were designed to enable us to attract, retain, motivate and appropriately reward the individuals who can help us successfully execute our business strategy and promote the best interests of our stockholders. In deciding how to vote on this proposal, the Board of Directors urges you to consider the following factors, which are more fully discussed in the "*Compensation Discussion and Analysis*" section below:

We tie pay to performance.

NEO base salaries were modestly increased in fiscal 2013 over their fiscal 2012 levels in an effort to maintain base salaries in the range of the 50th to 60th percentiles of the competitive market as reported in the Radford April 2012 High-Tech Industry Survey (the "Radford Survey") for companies with $200 million-1 billion in annual revenue and by a peer group of 15 medical device companies with whom we compete for executive talent who are in our industry sector or who have comparable financial and organizational characteristics.

The Compensation Committee determined that the bonus pool would not be funded under the Performance Bonus Plan for fiscal 2013 because none of the criteria required for funding were met. The bonus pool under the Performance Bonus Plan only funds if the corporate performance objectives established by the Compensation Committee are achieved at threshold levels established by the Committee. For each NEO, 65% of the target award payment is based on our Company's performance and 35% of the target award payment is based on achievement of individual performance metrics, but both components are contingent on the bonus pool funding and are therefore entirely at risk. Accordingly, if the bonus pool does not fund, no executive would be entitled to any cash incentive under the Performance Bonus Plan, regardless of such executive's performance against his or her individual goals. As discussed in more detail in the "*Compensation Discussion and Analysis*" section of this Proxy Statement, because the Company performance goals were not met, for fiscal 2013 no portion of the target award opportunity was paid to any NEO.

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In fiscal 2012, the Compensation Committee approved a performance equity program, referred to as the performance stock unit program ("2012 PSU Program"), which sets forth stretch goals for the Company to achieve. Specifically, the Performance Stock Units (the "PSUs") were tied to the achievement of key stretch goals relating to revenue and profitability to be achieved by the end of fiscal 2013, thereby tying an even greater portion of NEO compensation directly to performance. As discussed in more detail in the "*Compensation Discussion and Analysis*" section of this Proxy Statement, neither the revenue nor the profitability metrics were achieved for fiscal 2013 and therefore, all PSUs granted as part of the 2012 PSU Program for fiscal 2013 were cancelled.

In fiscal 2013, the Compensation Committee approved a new performance equity program, referred to as the market stock unit program ("2013 MSU Program"), which uses the Russell 2000 index as a performance benchmark and requires that the Company's total stockholder return exceed that of the Russell 2000 in order for any shares to be earned by each participating executive, including participating NEOs, on a sliding scale based on how much the Russell 2000 benchmark is exceeded, up to a maximum of 150% of the target number of shares. There are two measurement periods, one at the end of fiscal 2014 and another at the end of fiscal 2015, thereby tying an even greater portion of the compensation of participants in the 2013 MSU Program directly to performance. As discussed in more detail in the "*Compensation Discussion and Analysis*" section of this Proxy Statement, we are still within the measurement periods for the MSU Program and to date, although shares have been granted to the executives, no shares have vested pursuant to MSU awards under the 2013 MSU Program.

We have reasonable employment agreements. Each NEO's employment agreement has competitively reasonable cash benefit levels and "double trigger" change-of-control acceleration for equity awards. Our former CEO's employment agreement also provided for partial equity acceleration in the event of certain terminations of employment apart from a change of control. For the terms of the employment agreement for our current CEO, please refer to the information set forth under "*Employment, Change in Control and Severance Arrangements*".

We mitigate unnecessary risk. We have implemented robust Board of Directors- and management-level processes to identify risk, and we mitigate undue risk with business controls, including limits on payout levels under our annual incentive award plan, a sales compensation committee and a recoupment (sometimes called a "clawback") policy that applies to both our annual cash incentive and long-term equity incentive programs.

We have strong corporate governance standards. Our Compensation Committee uses an independent compensation consultant and has incorporated compensation analytical tools such as market data, tally sheets and compensation history for each executive officer as part of its annual executive compensation review.

We have adopted stock ownership requirements. Our Compensation Committee believes it is important for executives and non-employee directors to hold a minimum amount of our common stock, in order to align their interests with those of our stockholders. Consistent with this belief, the Compensation Committee implemented stock ownership guideline policies with stock holding requirements for our executives as follows:

The number of shares having a value equal to at least 3.0 times the regular annual board cash retainer (excluding committee retainer) for our non-employee directors;

The lesser of 3.0 times base salary or 175,000 shares for our CEO;

The lesser of 1.0 times base salary or 40,000 shares for our CFO, Chief Commercial Officer ("CCO") and any other Executive Vice President ("EVP"); and

- The lesser of 1.0 times base salary or 17,500 shares for our General Counsel.

Each NEO has five years from the later of July 1, 2010 and the date of his or her employment or promotion to achieve the required ownership levels.

- *No hedging transactions allowed.* Our insider trading policy prohibits all of our employees, including our NEOs, and our directors from engaging any speculative transactions in Company securities, including purchasing on margin, engaging in short sales, engaging in transactions in put options, call options or other derivative securities, or engaging in any other forms of hedging transactions.

- *We do NOT engage in the following compensation practices:*

  - We do not provide perquisites or other personal benefits to our NEOs.

  - We do not currently offer pension arrangements, retirement plans (other than our Section 401(k) employee savings plan), or nonqualified deferred compensation plans or arrangements to our executives, including the NEOs.

- *We do not provide excise tax gross-ups*.

The Compensation Committee will continue to analyze our executive compensation policies and practices and adjust them as appropriate to reflect our performance and competitive needs.

How Votes Are Counted

The adoption of the non-binding advisory resolution to approve the compensation of our NEOs requires the affirmative vote of a majority of shares present at the annual meeting, in person or by proxy, and entitled to vote on the proposal. A properly executed proxy marked "ABSTAIN" with respect to the approval of the compensation of our NEOs will not be voted with respect to such proposal, but it will be counted for purposes of determining whether there is a quorum. Abstentions will be treated as being present and entitled to vote on the proposal and, therefore, will have the same effect as a vote against the proposal.

Board of Directors' Recommendation

Based on the information provided above and within the "*Compensation Disclosure*" section of this Proxy Statement, we request that you indicate your support for our executive compensation philosophy and practices, by voting in favor of the following resolution:

> "**RESOLVED,** that the Company's stockholders approve, on an advisory basis, the compensation of the Company's NEOs as described in this Proxy Statement, including the Compensation Discussion and Analysis section, the compensation tables, and the other narrative compensation disclosures."

The opportunity to vote on this Proposal Two is required pursuant to Section 14A of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Because your vote is advisory, however, it will not be binding on the Board of Directors. However, the Compensation Committee, which is responsible for designing and administering our executive compensation program, and the Board of Directors value the opinions expressed by our stockholders and will consider the outcome of the vote when making future compensation decisions for our NEOs.

OUR BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE "FOR" THE APPROVAL OF THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS AS DESCRIBED IN THIS PROXY STATEMENT.

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PROPOSAL THREE RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

General

The Audit Committee of our Board of Directors has selected Grant Thornton LLP as our independent registered public accounting firm to perform the audit of our consolidated financial statements for the fiscal year ending June 30, 2014. Grant Thornton LLP has audited our consolidated financial statements since fiscal year 2007.

Stockholder ratification of the appointment of Grant Thornton LLP as our independent registered public accounting firm for the fiscal year ending June 30, 2014 is not required by law, by the NASDAQ Stock Market listing requirements, by our Amended and Restated Certificate of Incorporation or by our Bylaws. However, our Board of Directors is submitting the selection of Grant Thornton LLP to our stockholders for ratification as a matter of good corporate governance and practice. If the stockholders fail to ratify the appointment, the Audit Committee of our Board of Directors will reconsider whether or not to retain this firm. Even if the selection is ratified, we may appoint a different independent registered public accounting firm during the year if the Audit Committee of our Board of Directors determines that such a change would be in the best interests of our Company and our stockholders.

Representatives of Grant Thornton LLP are expected to be present at the annual meeting of stockholders. They will have an opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions from our stockholders.

Audit and Non-Audit Services

The Audit Committee is directly responsible for the appointment, compensation and oversight of our independent auditors. The Audit Committee retained Grant Thornton LLP to audit our consolidated financial statements for the fiscal year ended June 30, 2013. The estimated aggregate fees billed by Grant Thornton LLP for all services relating to fiscal 2013 and 2012 are as follows:

	Fiscal Year Ended June 30,	
Service Category	**2013**	**2012**
Audit Fees(1)	$ 1,926,000	$ 2,024,000
Audit Related Fees		
Tax Fees		
All Other Fees		
Total	$ 1,926,000	$ 2,024,000

(1) Audit fees primarily consist of fees for professional services performed for the audit of our consolidated annual financial statements and the review of our unaudited quarterly financial statements. Audit fees also include fees for the audit of our internal controls over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002, issuance of a comfort letter and fees for statutory audits. The Audit Fees for fiscal 2013 represent the amount billed to our Company as of the date of this Proxy Statement plus an estimated $38,000, which we expect to be billed following the date of this Proxy Statement.

In the above table, in accordance with the SEC's definitions and rules, "audit fees" are fees for professional services for the audit of our consolidated financial statements included in our Annual Report on Form 10-K, for the review of our financial statements included in our quarterly reports on Form 10-Q, for the review of registration statements and issuance of consents and for services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements

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except those not required by statute or regulation; "audit-related fees" are fees for assurance and related services that were reasonably related to the performance of the audit or review of our financial statements, including attestation services that are not required by statute or regulation; "tax fees" are fees for tax compliance, tax advice and tax planning; and "all other fees" are fees for any services not included in the first three categories.

Audit Committee Pre-Approval Policies and Procedures

The Audit Committee pre-approves all audit and permissible non-audit services provided by the independent registered public accounting firm. These services may include audit services, audit-related services and tax services, as well as, to a very limited extent, specifically designated non-audit services that, in the opinion of the Audit Committee, will not impair the independence of the registered public accounting firm. Pre-approval is detailed as to the particular service or category of services and is generally subject to a specific budget. The independent registered public accounting firm and management are required to periodically report to the Audit Committee regarding the extent of services provided by the independent registered public accounting firm in accordance with this pre-approval, including the fees for the services performed to date. In addition, the Audit Committee also may pre-approve particular services on a case-by-case basis, as required.

How Votes Are Counted

Stockholder ratification of the appointment of Grant Thornton LLP as our independent registered public accounting firm for the fiscal year ending June 30, 2014 is not required by law or by governing instruments. However, our Board of Directors is submitting the selection of Grant Thornton LLP to our stockholders for ratification as a matter of good corporate governance and practice. The ratification of the appointment of Grant Thornton LLP requires a majority of the shares present in person or represented by proxy at the annual meeting. You may vote either "FOR" or "AGAINST" ratification of the appointment, or you may abstain. A properly executed proxy marked "ABSTAIN" with respect to the ratification of the appointment will not be voted with respect to such ratification, but it will be counted for purposes of determining whether there is a quorum. Abstentions will be treated as being present and entitled to vote on the proposal and, therefore, will have the same effect as a vote against the proposal. If the stockholders fail to ratify the appointment, the Audit Committee of our Board of Directors will reconsider whether or not to retain this firm.

Board of Directors' Recommendation

OUR BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE "FOR" THE RATIFICATION OF THE APPOINTMENT OF GRANT THORNTON LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING JUNE 30, 2014.

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AUDIT COMMITTEE REPORT

The Audit Committee of our Board of Directors is responsible for overseeing our accounting and financial reporting processes and internal control systems, the appointment, compensation, retention and oversight of Grant Thornton LLP, our independent registered public accounting firm, and audits of our financial statements, all pursuant to the Audit Committee's written charter. Grant Thornton LLP reports directly to the Audit Committee. The Audit Committee has the authority to obtain advice and assistance from outside legal, accounting or other advisors as the Audit Committee deems necessary to carry out its duties and to receive appropriate funding, as determined by the Audit Committee, from our Company for such advice and assistance.

Management is responsible for preparing our financial statements and for our financial reporting processes, accounting policies, systems of internal controls and disclosure controls and procedures. For our fiscal year ended June 30, 2013, Grant Thornton LLP was responsible for expressing an opinion on the effectiveness of our internal control over financial reporting. Grant Thornton LLP was also responsible for performing an independent audit and expressing an opinion on the conformity of our audited financial statements with accounting principles generally accepted in the United States. In this context, the Audit Committee hereby reports as follows:

1. The Audit Committee has reviewed and discussed our audited financial statements for fiscal 2013 with our management.

2. The Audit Committee has discussed with Grant Thornton LLP the matters required to be discussed by the Statement on Accounting Standards No. 61, as amended (AICPA, *Professional Standards,* Vol. 1. AU section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T.

3. The Audit Committee has received the written disclosures and the letter from Grant Thornton LLP required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the Audit Committee concerning independence and has discussed with Grant Thornton LLP its independence.

4. Based on the review and discussions referred to in paragraphs (1) through (3) above, the Audit Committee recommended to our Board of Directors that the audited financial statements be included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2013, for filing with the SEC.

AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

Dennis L. Winger, Chairperson
Elizabeth Dávila
Robert S. Weiss

The foregoing Audit Committee report shall not be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, and shall not otherwise be deemed filed under these acts, except to the extent we incorporate by reference into such filings.

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COMPENSATION COMMITTEE REPORT

This report, filed in accordance with Item 407(e)(5) of Regulation S-K, should be read in conjunction with the other information relating to executive compensation which is contained elsewhere in this Proxy Statement and is not repeated here.

In this context, the Compensation Committee hereby reports as follows:

1. The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis section contained in this Proxy Statement with management.

2. Based on the review and discussions referred to in paragraph (1) above, the Compensation Committee recommended to our Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement.

COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS

Louis J. Lavigne, Jr., Chairperson
Elizabeth Dávila
Jack Goldstein, Ph.D.
Emad Rizk, M.D.

The foregoing Compensation Committee Report shall not be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, and shall not otherwise be deemed filed under these acts, except to the extent that we expressly incorporate it by reference into such filings.

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COMPENSATION DISCUSSION AND ANALYSIS

Introduction

This Compensation Discussion and Analysis provides information regarding the fiscal 2013 compensation program for our principal executive officer, our principal financial officer and the three executive officers (other than the principal executive officer and principal financial officer) at fiscal year-end who were the most highly compensated executive officers of Accuray and who were then employed by us. During fiscal 2013, these individuals were:

- Joshua H. Levine, our President and Chief Executive Officer;
- Derek A. Bertocci, our Senior Vice President and Chief Financial Officer (who resigned from our Company effective September 2, 2013);
- Kelly Londy, our Executive Vice President and Chief Commercial Officer;
- Robert Ragusa, our Executive Vice President of Engineering and Global Operations (who, on September 30, 2013, provided us with notice of his intent to resign from the Company and that his last day of employment will be on December 2, 2013); and
- Darren J. Milliken, our Senior Vice President, General Counsel and Corporate Secretary.

Under the SEC rules, our NEOs for fiscal 2013 also include the following former executive officers:

- Euan S. Thomson, our former President and Chief Executive Officer (who resigned from our Company effective October 11, 2012); and
- Chris A. Raanes, our former Executive Vice President, Chief Operating Officer (who resigned from our Company effective November 16, 2012).

These executives were Accuray's NEOs for fiscal 2013. In this Compensation Discussion and Analysis, Accuray is referred to as "our," "us," "we," or "the Company."

This Compensation Discussion and Analysis describes the material elements of our executive compensation program during fiscal 2013. It also provides an overview of our executive compensation philosophy, including our principal compensation policies and practices. Finally, it analyzes how and why the Compensation Committee of our Board of Directors arrived at the specific compensation decisions for our NEOs in fiscal 2013, and discusses the key factors that the Compensation Committee considered in determining their compensation.

Fiscal 2013 Executive Summary

Our NEO's compensation for fiscal 2013 reflects our compensation philosophy of maintaining an executive compensation program that emphasizes pay for performance, drives business growth and links stockholder value and executive performance. Compensation ultimately received by our NEOs in fiscal 2013 reflects the fact that the Company did not meet its financial and operational performance objectives in fiscal 2013. As a result, annual cash incentives and performance based equity awards ("PSUs") with performance periods ending in fiscal 2013 were not earned by our NEOs. In addition, a significant portion of our NEOs' total compensation in fiscal 2013 was comprised of equity-based compensation, consisting of variable performance-based restricted stock units ("MSUs"), time based restricted stock units ("RSUs") and stock options to our NEOs in order to align compensation with long-term interests of the Company's stockholders by focusing our NEOs on stock price performance and total stockholder return ("TSR"). Fiscal 2013 was also marked by a number of changes to our executive leadership team, including the appointment of Mr. Levine, our new President and Chief Executive Officer, as described further below.

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Fiscal 2013 Business Results.

In fiscal 2013, we achieved financial results that were lower than expected at the start of the fiscal year as follows:

- Generated $315.9 million in revenue (excluding adjustments associated with mergers and acquisitions) at 69.5% of our annual operating plan;

- Generated new orders to backlog (comprising new purchase agreements as well as the addition of existing customer contracts to backlog upon the contracts' satisfaction of our backlog criteria) at 68.3% of our annual operating plan for CyberKnife Systems and TomoTherapy Systems in the aggregate; and

- Achieved 34.0% gross margins, at 83.0% of our annual operating plan.

The foregoing metrics are the metrics under the Executive Performance Bonus Plan and are further discussed under the heading "*Fiscal 2013 Cash Incentive Award Opportunities and Payouts"* below. The business results for fiscal 2013 tied to the 2012 PSU Program were related to revenue and profitability, neither of which were achieved for fiscal 2013 and therefore, no payout was made under the 2012 PSU Program.

Significant Executive Compensation Actions

As reflected in our compensation philosophy, we set the compensation of our NEOs based on their ability to achieve annual operational objectives that we believe further our long-term business objectives and to create sustainable long-term stockholder value in a cost-effective manner. Accordingly, our fiscal 2013 compensation actions and decisions were based on our executives' accomplishments in these dual areas.

For fiscal 2013, the Compensation Committee determined that growth in new orders to backlog, increase of revenue and improved gross margins represented the objectives most important to creating long-term stockholder value. At the same time, for fiscal 2013 the Compensation Committee sought to strengthen our management team because the Compensation Committee believed that the right management team was critical to the successful execution of our long-term business objectives and launch of the Company's new products. Accordingly, the Compensation Committee addressed the primary elements of our executives' compensation packages (base salary, annual cash incentive awards and equity awards) with these goals in mind. In addition, in light of our ongoing assessments of industry best practices and a desire to more closely align executive officer compensation with Company performance, the Compensation Committee and Board of Directors took additional actions to enhance our compensation and governance practices for fiscal 2013 and intend to continue this philosophy going forward.

Following is a summary of significant actions taken by the Compensation Committee with respect to the compensation of our NEOs for fiscal 2013:

- *Facilitated a change of leadership.* During fiscal year 2013, Dr. Thomson resigned as our President and Chief Executive Officer and Mr. Levine was appointed as President and Chief Executive Officer. Additionally, Ms. Londy and Mr. Ragusa were each promoted to new executive positions.

- *Increased base salaries.* As described further below, the base salaries of certain of our NEOs were moderately increased. Certain other NEOs had larger increases to base salary either as a result of a promotion or to make them more competitive based on market data reviewed by the Compensation Committee.

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No payment of annual cash incentive awards under our Performance Bonus Plan for fiscal 2013. The Compensation Committee determined that the bonus pool would not be funded under the Performance Bonus Plan for fiscal 2013 because none of the annual Company performance goals required for funding were met. Because the Company performance goals were not met, for fiscal 2013, no portion of the funded target award opportunity was paid to any NEO.

Approved equity awards to address competitive market concerns, satisfy our retention objectives, and reward individual performance during fiscal 2013. In fiscal 2013, the Compensation Committee increased the size of our NEOs' equity awards relative to prior years, taking into consideration the fact that, consistent with our compensation philosophy, such awards further increase the NEOs' stake in the Company, thereby reinforcing their incentive to manage our business as owners and subjecting a significant portion of their total compensation to Company performance. Equity awards align with our growth strategy and provide significant leverage if our growth objectives are achieved, and, in addition, place a significant portion of executive compensation at risk if our business strategy and results do not result in returns to our stockholders.

Approved a new performance-based equity program. The Compensation Committee approved the 2013 MSU Program, which is designed to further tie NEO compensation to performance over a three-year period as awards only vest based on performance at the end of performance periods ending at fiscal year-end 2014 and 2015. The program uses the Russell 2000 index as a performance benchmark and requires that the Company's TSR exceed that of the Russell 2000 in order for a certain number of shares to be earned by each participating executive, including participating NEOs, on a sliding scale based on how much the Russell 2000 benchmark is exceeded, up to a maximum of 150% of the target number of shares.

Determined no equity awards were earned in fiscal 2013 under the 2012 PSU Program. For fiscal 2013, the Compensation Committee determined that the vesting requirements outlined in the 2012 PSU Program for awards granted in fiscal 2012 were not met, and the PSUs associated with the performance period ending with fiscal 2013 were cancelled.

Maintained the same compensation peer group we used for fiscal 2012 in fiscal 2013. The Compensation Committee determined to make no changes to the peer group because it (a) includes a sufficiently large number of peers to maintain the quality of the data sample and mitigate the impact of any outliers, (b) reflects peer group selection criteria which is appropriately aligned to those of our growing Company, and (c) includes a group of reference peers for the purpose of providing key labor market compensation data and an understanding of the compensation practices of larger industry companies.

Reaffirmed the Company's stock ownership requirements for our executive officers and non-employee directors by requiring mandatory ownership levels rather than merely suggested guidelines.

Maintained our "clawback" policy. The Compensation Committee determined to maintain the same expanded recoupment policy (which is reflected in both our Performance Bonus Plan and 2007 Incentive Award Plan) which includes potential recoupment of performance-based or incentive compensation paid to executive officers if the Company is required to restate its financial results or materially reduce publicly disclosed backlog figures, in the event the compensation received by such executive officers is greater than would have been paid or awarded if calculated based on the restated financial results or the materially reduced backlog figures.

We maintain good governance standards in our executive compensation practices. The following policies remained in effect in fiscal 2013:

- Our executive officers' employment agreements do not include "single trigger" change-of-control acceleration for equity awards.
- We do not provide perquisites or other personal benefits to our executives, including the NEOs. Our executives participate in broad-based company-sponsored health and welfare benefits programs on the same basis as our other full-time, salaried employees.
- Separation of Board of Directors Chairperson and Chief Executive Officer positions. We have operated with these roles separated for several years and continue to believe separation of the two roles is in the best interests of our stockholders.
- No pension or nonqualified deferred compensation plans. We do not currently offer pension arrangements, retirement plans (other than our Section 401(k) employee savings plan), or nonqualified deferred compensation plans or arrangements to our executives, including the NEOs.
- Use of an independent compensation consultant who reports directly to the Compensation Committee.

Results of "Say-on-Pay" Advisory Vote

The Company provided stockholders a "say-on-pay" advisory vote to approve its executive compensation in 2012 under recently adopted rules under Section 14A of the Exchange Act. At the 2012 Annual Meeting, stockholders expressed strong support for the compensation of the Company's named executive officers, with 95% of the votes cast for approval of the "say-on-pay" advisory vote. The Committee carefully evaluated the results of the 2012 advisory vote in connection with its evaluation of the Company's executive compensation programs more generally. After careful consideration, and aside from the voluntary programs and actions described above, the Committee did not make any other material changes to the Company's executive compensation program and policies as a result of the 2012 "say-on-pay" vote.

Fiscal 2013 Compensation Actions

The Compensation Committee's decisions with respect to fiscal 2013 and certain of its decisions with respect to fiscal 2014 are discussed in further detail below. In addition, the compensation and benefits provided to our NEOs for the last three years are set forth in the Summary Compensation Table and other tables that follow this Compensation Discussion and Analysis and in the footnotes and narrative material that accompany those tables.

Background and Compensation Philosophy

To achieve the Company's objectives, we need a highly talented and seasoned management team with the integrity, skills and dedication necessary to oversee a dynamic and growing organization and the vision to anticipate and respond to future market developments. Our executives must be capable of fulfilling the Company's long-term business strategy, including the launch of two new products, the CyberKnife M6 Series and the TomoTherapy H Series Systems, into the market.

The overarching compensation philosophy approved by the Compensation Committee for fiscal 2013 was to maintain an executive compensation program that emphasizes pay for performance, drives business growth and links stockholder value and executive interests.

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The key objectives of the compensation philosophy include:

- Attract, retain, motivate and reward the top talent that is necessary, especially in the areas of sales and marketing, to grow the CyberKnife and TomoTherapy markets and drive future business success;

- Link short-term rewards with Company performance (both financial and strategic) and individual performance; and

- Link long-term rewards with the creation of stockholder value.

The foregoing principles and objectives form the foundation of our executive compensation philosophy, which is reflected in the various compensation elements base salary, annual cash incentives, annual equity awards, performance equity awards and other benefits.

Compensation Process

The Compensation Committee oversees our executive compensation philosophy and administers our executive compensation program. The Compensation Committee is responsible for reviewing the performance and approving the compensation of our executives, including the NEOs (other than our Chief Executive Officer). The independent members of our Board of Directors are responsible for reviewing the performance of our Chief Executive Officer and approving his compensation. The Compensation Committee is also responsible for reviewing and recommending to our Board of Directors the compensation of our non-employee directors and establishing and regularly reviewing the compensation and benefits policies for our executives and salaried employees. For additional information on the Compensation Committee, including the scope of its authority, see "*Corporate Governance and Board of Directors Matters Compensation Committee",* below.

At the beginning of each fiscal year, the Board of Directors, after consulting with management, establishes the corporate performance objectives for the Company, and the Compensation Committee, after consulting with management, reviews and approves the individual performance objectives for each executive officer (other than the CEO) and makes decisions with respect to any base salary adjustment, target annual cash incentive award opportunities, and equity awards for our executives, including the NEOs (other than the CEO), for the upcoming year. The independent members of the Board of Directors, with recommendations from the Compensation Committee, review and approve the individual performance objectives for the CEO and make decisions with respect to any base salary adjustment, target annual cash incentive award opportunities and equity awards for our CEO. After the end of the fiscal year, the Compensation Committee assesses the performance of our executives, including the NEOs (other than the CEO), to determine the payouts for the annual cash incentive award opportunities for the previous year, and the independent members of our Board of Directors assess the performance of our CEO to determine his annual cash incentive award payout.

Role of Management

To aid in its deliberations, each year our CEO provides recommendations to the Compensation Committee regarding the individual compensation elements for each of our executives, including the NEOs (other than himself). Prior to formulating these recommendations, our CEO conducts an annual performance review of our other executives to evaluate their performance for the prior fiscal year. Our CEO then presents the results of these evaluations, along with his recommendations with regard to their compensation, including base salary adjustments, annual cash incentive award opportunities and payouts and equity awards, to the Compensation Committee for its consideration. Similarly, our CEO's performance is reviewed annually by the Compensation Committee as well as the independent members of the Board of Directors as part of their deliberations with respect to his compensation.

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Our CEO also meets with the Compensation Committee at the beginning of each year to assist the Compensation Committee in formulating the Company's performance objectives for each fiscal year and the individual performance objectives for each executive. For executive officers other than himself, the CEO considers performance and makes recommendations to the Compensation Committee with respect to base salary, annual incentive and long term equity compensation. In advance of making such recommendations, the Chief Executive Officer often consults with our Senior Vice President of Human Resources, who may discuss a range of pay for him to consider for executive officers other than our Senior Vice President of Human Resources and himself, which range is based on the Company's compensation philosophy, market data provided by the Compensation Committee's independent consultant, achievement of individual performance goals and objectives, and internal pay equity. The Compensation Committee reviews, discusses and modifies as they deem appropriate the compensation recommendations made by the CEO.

The Compensation Committee itself makes recommendations regarding the compensation of the CEO to the independent members of the Board of Directors, who approve all elements of the CEO's compensation.

Typically, our CEO is present at Compensation Committee meetings where executive compensation and corporate and individual performance are discussed and evaluated (except when his own compensation and performance are discussed). From time to time, our Chief Financial Officer, General Counsel, and Senior Vice President of Human Resources may also attend Compensation Committee meetings at which executive compensation matters are discussed and participate in those discussions (except when their own compensation and performance are discussed).

Role of Compensation Consultant

The Compensation Committee has retained Compensia, Inc. ("Compensia") as its independent advisor to provide advice with respect to our compensation programs. Compensia advises the Compensation Committee with respect to trends in executive compensation, peer group selection, the determination of pay programs, the assessment of competitive pay levels and mix (for example, the proportion of fixed pay to incentive pay, and the proportion of annual cash pay to long-term incentive pay) and setting compensation levels. Compensia also consults with the Compensation Committee to formulate and design new programs to better align management performance with the interests of the Company's stockholders, for example, performance equity programs.

Compensia did not perform any other services for the Company or the Compensation Committee in fiscal 2013.

Competitive Positioning

For fiscal 2013, the Compensation Committee allocated the compensation of our executives, including our NEOs, between cash and equity based on an analysis of the data reflected in the Radford Survey for companies with $200 million to $1 billion in annual revenue, as well as an assessment of the Company's performance and compensation practices against a peer group of 15 medical device companies (the "Core Peer Group") with whom we compete for executive talent, who are in our industry sector or who have comparable financial and organizational characteristics. (collectively, the "Relevant Market Data"). The Radford Survey is a survey of companies in the medical device, software, and other high-technology industries. The peer group of 15 medical device companies was recommended by Compensia and submitted to the Compensation Committee for its review. The final Core Peer Group for fiscal 2013 was approved by the Compensation Committee in May 2012.

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With the exception of removing American Medical Systems and SonoSite, Inc. from the Core Peer Group because each of these companies was acquired, the fiscal 2013 Core Peer Group remained the same as for fiscal 2012 and was selected based on the following criteria:

Primary Factors:

- Similar business focus (i.e., companies that develop and design highly technical devices and that have at least 30% of their business from international operations);
- Total revenue of approximately $200 million to $1 billion; and
- Positive revenue growth.

Secondary Factors:

- Employee population of up to approximately two times the number of employees of the Company;
- Market capitalization of one-half to three times that of the Company; and
- Revenue per employee of one-half times to two times that of the Company.

The fiscal 2013 Core Peer Group approved by the Compensation Committee includes the following companies:

AngioDynamics, Inc.	ICU Medical, Inc.	NuVasive, Inc.
ArthroCare Corporation	Integra LifeSciences Holdings Corporation	Thoratec Corporation
CONMED Corporation	Masimo Corporation	Volcano Corporation
Cyberonics, Inc.	Merit Medical Systems, Inc.	Wright Medical Group, Inc.
Haemonetics Corp.	Natus Medical Incorporated	Zoll Medical

In addition to the above Core Peer Group, for fiscal 2013, the Compensation Committee also approved a group of seven reference peers (the "Reference Peer Group") in order to provide key labor market compensation data and an understanding of the compensation practices of larger industry companies. The Reference Peer Group was provided to the Compensation Committee to supplement the executive compensation assessment, however, the data were not a factor in any of the decision making process. The Reference Peer Group was selected based on the following criteria:

- Medical device, life science or pharmaceutical industry companies engaged in the development of technical products or pharmaceuticals that go through the clinical testing processes;
- Revenue of approximately $1 billion to $5.5 billion; and
- Based in the U.S., primarily in California.

The fiscal 2013 Reference Peer Group includes the following seven companies:

Allergan, Inc.	Intuitive Surgical, Inc.	Varian Medical Systems, Inc.
Edwards Lifesciences Corporation	ResMed Inc.	Watson Pharmaceuticals, Inc.
Illumina, Inc.		

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The table below reflects percentile estimates of how the fiscal 2013 compensation of our fiscal year-end NEOs compares to the Company's fiscal 2013 Relevant Market Data.

		2013 Estimated Pay Positioning vs. Market					
Incumbent	**Title**	**Salary**	**Target Total Cash**	**Actual Total Cash**	**Equity/ LTI Value**	**Target Total Direct Comp.**	**Actual Total Direct Comp.**
Joshua H. Levine(1)	President & CEO	55%	75th	<25th		*New Hire*	
Robert Ragusa(2)	EVP Engineering & Global Ops	70%	55%	<25th	>75th	>75th	70%
Kelly Londy	EVP Chief Commercial Officer	65%	65%	<25th	75%	>75th	75%
Derek Bertocci(3)	SVP CFO	50%	60%	<25th	45%	55%	35%
Darren Milliken	SVP General Counsel	35%	45%	<25th	40%	50%	35%

(1) Mr. Levine became our President and CEO effective October 12, 2012. New hire equity data not directly comparable to competitive annual equity data.

(2) On September 30, 2013, Mr. Ragusa provided us with notice of his intent to resign from the Company and that his last day of employment will be on December 2, 2013.

(3) Mr. Bertocci resigned from the Company effective September 2, 2013.

The table below summarizes where we fall relative to our peer group with respect to each of our peer group criteria.

Criteria	**Accuray FY 2013**	**Target for Peer Group**	**2013 Peer Group Median (Data as of 6/30/13)**	**Approximate Accuray Percent Rank**
Revenue ($MM)	$ 409.2	0.5x - 2x	$ 457.4	46th
Market Capitalization ($MM)	$ 490.1	0.5x - 3x	$ 998.1	12th
Employees	1,100	0.5x - 2x	1,600	22nd
Revenue per Employee	$ 372,000	0.5x - 2x	$ 282,545	77th

The Compensation Committee intends to annually review the composition of the peer group to ensure it is the most relevant set of companies to use for comparison purposes.

In evaluating the base salaries of our executives for fiscal 2013, establishing target award opportunities for annual cash incentive awards and making equity awards, the Compensation Committee reviewed the Relevant Market Data to inform its decisions on individual compensation elements, including the competitive reasonableness, and to ensure that its decisions were consistent with the Company's compensation philosophy and strategy. While the Compensation Committee considered the Relevant Market Data, the Compensation Committee did not make its decisions based on targeting compensation to specific benchmarks against the survey and peer group data. The Compensation Committee took this approach consistent with its intention to (i) set performance milestones for cash incentive compensation so that target level payouts would only be made if our executives and the Company performed at a superior level that would be difficult to achieve and (ii) provide our executives with the ability to earn above-market compensation tied to performance in order to attract and retain the quality of executives necessary to successfully manage the Company.

The Compensation Committee used a similar process and similar criteria to identify the fiscal 2014 core and reference peer groups and determined to keep the same core peer group of companies for fiscal 2014, except that Zoll Medical was removed because it was acquired. In addition, the Compensation Committee decided to remove the Reference Peer Group companies from the list in fiscal 2014 because the Company no longer saw a benefit to having the Reference Peer Group data. As indicated above, the fiscal 2013 Reference Peer Group was provided to the Compensation Committee to supplement the executive compensation assessment and since the data were not a factor in any of

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the decision making process, for fiscal 2014 the Compensation Committee did not see a benefit in gathering data for the Reference Peer Group companies. In addition, the Compensation Committee decided that the Reference Peer Group companies were significantly larger than the Company and would therefore not be an appropriate benchmark for executive compensation decisions.

Tally Sheets

At least annually, with the help of Compensia, the compensation consultant, the Compensation Committee reviews each executive's compensation history for the past three years, including each component of compensation and how it compared to Relevant Market Data for the fiscal year. The Compensation Committee also reviews tally sheets setting forth the expected value of annual compensation and benefits for each NEO, including base salaries, potential annual cash incentive payouts and minimum and maximum levels, long-term incentive compensation, including the number of stock options and restricted stock unit awards granted and the fair value at grant, and the annualized cost of other benefits. The tally sheets also set forth the accumulated value of benefits and compensation to each NEO, including the accumulated value of equity grants and the accumulated value of potential payouts under different separation scenarios, including under our severance and change of control arrangements. Reviewing tally sheets each year facilitates the Compensation Committee's evaluation of the reasonableness of the total accumulated value of the compensation and benefits provided to each NEO. For fiscal 2013, the tally sheets served as a useful check on total annual compensation for each executive officer and relative compensation among the executive officers, but did not affect any specific decision relating to the NEOs' annual compensation.

Pay for Performance

We believe that there should be a strong relationship between pay and performance and our executive compensation program reflects this belief. In particular, annual cash incentive awards and equity awards represent a significant portion of our executive compensation program, as reflected in the chart below, and this variable compensation is considered "at-risk" as it is directly dependent upon the achievement of pre-established goals and/or stock price appreciation and performance:

In fiscal 2013, annual cash incentives payable under the Performance Bonus Plan were intended to link executive rewards to Company and individual performance, upon achieving pre-determined goals. The bonus pool would only fund if the Company achieved pre-determined performance metrics, making these cash incentives entirely at risk. If the bonus pool funds, 65% of each executive's bonus is tied to Company performance. The remaining 35% of the pool is allocated based on the achievement of individual performance metrics. Accordingly, if the bonus pool does not fund, no executive would be entitled to any cash incentive under the Performance Bonus Plan at all, regardless of such executive's performance against his or her individual performance goals. Even if the pool funds and the metrics are achieved, the Compensation Committee may exercise negative discretion to reduce the size of the awards. In fiscal 2013, the bonus pool was not funded because none of the Company's performance criteria required for funding were met.

The exercise price of stock options granted under our equity incentive plans is equal to the fair market value of the common stock on the date of grant, so the options will yield value to the executives only if the stock price appreciates.

Full-value awards (in the form of RSUs) without performance criteria remain a component of the executive's equity awards. The Compensation Committee believes that this element offers a strong retention component to our overall compensation program.

In fiscal 2013, the Compensation Committee approved our 2013 MSU Program with performance periods ending in fiscal 2014 and fiscal 2015, further linking the compensation of

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participants in this program to the creation of long-term stockholder value based upon achievement of relative TSR. We are still within the measurement periods for the MSU Program and to date, although shares have been granted to the executives, no shares have vested pursuant to MSU awards under the 2013 MSU Program.

Target Pay Mix

The following charts illustrate for our NEOs the allocation of fiscal 2013 target total direct compensation between base salary, cash incentives and equity compensation elements. All elements, except base salary, are considered "at-risk".

CEO 2013 Target Pay Mix

Average Other NEO 2013 Target Pay Mix

Relationship between Company Performance and Compensation

Based on our performance in fiscal 2013, a significant portion of the "at-risk" compensation was not earned (i.e., bonus payout is not earned and assumes performance-based equity grant in fiscal 2013 is below target).

FY 2013 Target and Actual Compensation ($ in thousands)

The chart above reflects salary, annual cash incentive plan compensation and equity awards but excludes other bonuses and other compensation as reported in the Summary Compensation Table. Actual compensation assumes performance-based equity awards granted in fiscal 2013 are below target but that threshold levels are achieved.

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Compensation Elements

During fiscal 2013, the compensation of our executives, including the NEOs, consisted of the following elements:

- Base salary;
- An annual cash incentive award opportunity;
- Equity awards; and
- Other benefits.

Base Salary

We believe that a competitive base salary is the essential foundation to providing an appropriate total direct compensation package for our executives, including the NEOs. We use base salary to fairly and competitively compensate our executives for the jobs we ask them to perform. We view base salary as the most stable component of our executive compensation program, as this amount is not at risk.

The Compensation Committee makes adjustments to base salary when it believes there is a deviation from market, when an individual is promoted or assumes an increase in responsibility, or when the Compensation Committee determines that an individual's performance warrants an increase. The Compensation Committee reviews the base salary levels of our executives each year to determine whether an adjustment is warranted.

For fiscal 2013, the Compensation Committee increased the base salaries of the NEOs from their fiscal 2012 levels. The base salaries of Mr. Bertocci and Mr. Raanes were increased by 3.0% to keep such base salaries competitive with external peers. Mr. Milliken's salary increased by approximately 10.0% in order to make Mr. Milliken's base salary commensurate with the market data shown in the Radford Survey and his performance. Ms. Londy's salary increased by 9.4% in connection with her promotion from Senior Vice President, Chief Commercial Officer to Executive Vice President, Chief Commercial Officer. Mr. Ragusa's salary increased by 22.4% in connection with his promotion from Senior Vice President, Global Operations to Executive Vice President, Engineering and Global Operations. Mr. Levine was hired during fiscal 2013 and his base salary was set at the time of hire and has not increased. The base salary for Dr. Thomson was not increased from his fiscal 2012 base salary level because his salary was commensurate with the market data. The base salaries paid to the NEOs during fiscal 2013 are reported in the Summary Compensation Table below.

For fiscal 2014, the Compensation Committee recommended to the independent members of the Board of Directors, and such independent directors determined, to increase the base salary for Mr. Levine by 3.0% from the level set for fiscal 2013. With respect to the other NEOs, for fiscal 2014 the Compensation Committee approved an increase to Mr. Milliken's base salary of approximately 10.6%. The base salaries for Ms. Londy and Mr. Ragusa remained at the same level as for fiscal 2013 because each of their fiscal 2013 salaries were increased in April 2013 in connection with their respective promotions.

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The table below reflects the base salaries of the NEOs for fiscal 2013 and as set by the Compensation Committee for fiscal 2014, effective October 1, 2013:

Named Executive Officer	Fiscal 2013 Salary(1)	Fiscal 2014 Salary(1)
Joshua H. Levine	$ 625,000	$ 645,000
Kelly Londy	$ 350,000(2)	$ 350,000
Darren J. Milliken	$ 284,900	$ 315,000
Robert Ragusa(3)	$ 350,000(2)	$ 350,000
Euan S. Thomson, Ph.D.(4)	$ 530,500(5)	N/A
Derek Bertocci(6)	$ 332,600	N/A
Gregory Lichtwardt(7)	N/A	$ 355,000
Chris A. Raanes(8)	$ 398,500(5)	N/A

(1) The salaries reflected for both fiscal 2013 and fiscal 2014 became effective on October 1 of each such year, respectively.

(2) The base salary amount listed above reflects the increased fiscal 2013 base salaries effective April 16, 2013 for each of Ms. Londy and Mr. Ragusa in connection with their promotions.

(3) On September 30, 2013, Mr. Ragusa provided us with notice of his intent to resign from the Company and that his last day of employment will be on December 2, 2013.

(4) Dr. Thomson resigned from the Company effective October 11, 2012.

(5) The base salary amount listed above reflects the amount each of Dr. Thomson and Mr. Raanes would have received had each of them remained with the Company for all of fiscal 2013.

(6) Mr. Bertocci resigned from the Company effective September 2, 2013.

(7) Mr. Lichtwardt joined as the Company's Executive Vice President and Chief Executive Officer effective September 3, 2013.

(8) Mr. Raanes resigned from the Company effective November 16, 2012.

Annual Cash Incentives

Annual cash incentive awards serve to reinforce our performance-based culture. On average, the Compensation Committee believes in providing our executives, including the NEOs, with a total target cash compensation opportunity above the market median tied to the achievement of challenging pre-established corporate and individual performance objectives. As with base salary, each executive's annual cash incentive target opportunity is set with reference to each executive's performance over the previous fiscal year as evaluated by our Chief Executive Officer, his or her experience and responsibilities, the critical nature of the executive's position relative to the Company's success, the Company's retention needs, and the Relevant Market Data.

During the first quarter of each fiscal year, the Compensation Committee reviews and approves the corporate and individual performance objectives for the current fiscal year's annual cash incentive awards and reviews and approves the target award opportunity for each executive, including the NEOs, but excluding the CEO, whose performance objectives and target award opportunity are reviewed and approved by the independent members of the Board of Directors. As shown in the table below, for fiscal 2013, the target award opportunity for Mr. Levine was equal to 120% of his base salary, the target award opportunities for Messrs. Bertocci and Ragusa and Ms. Londy were equal to 65% of their respective salaries, and the target award opportunity for Mr. Milliken was equal to 50% of his base

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salary. Except for Mr. Ragusa, whose target opportunity was increased from 50% to 65%, the target percentages were unchanged from the prior fiscal year for each executive who was employed by the Company in the prior fiscal year. The Compensation Committee recognizes that the performance of certain of the NEOs has a greater potential to impact our successful implementation of our overall strategy and achievement of our financial performance and therefore believes it is appropriate that the target award opportunities of those executives be higher than the opportunity for others.

Fiscal 2013 Performance Bonus Plan Target Award Opportunities

	Target	
Named Executive Officer	**(%)**	**($)**
Joshua H. Levine	120%	750,000
Euan S. Thomson, Ph.D.(1)	100%	530,500
Derek A. Bertocci(2)	65%	216,190
Chris A. Raanes(3)	65%	259,025
Kelly Londy	65%	227,500
Darren J. Milliken	50%	142,450
Robert Ragusa(4)	65%	227,500

(1) Dr. Thomson resigned from the Company effective October 11, 2012.

(2) Mr. Bertocci resigned from the Company effective September 2, 2013.

(3) Mr. Raanes resigned from the Company effective November 16, 2012.

(4) On September 30, 2013, Mr. Ragusa provided us with notice of his intent to resign from the Company and that his last day of employment will be on December 2, 2013.

Fiscal 2013 Cash Incentive Award Opportunities and Payouts

Our executives, including the NEOs, are eligible to participate in the Performance Bonus Plan, which was adopted by the Compensation Committee and approved by the Company's stockholders at our 2009 Annual Meeting. The Performance Bonus Plan has been structured and is operated with the intent that the compensation paid under the Performance Bonus Plan will qualify for deductibility under Section 162(m) of the Internal Revenue Code of 1986, as amended ("Code"). The rules and regulations promulgated under Section 162(m) are complicated, however, and subject to change from time to time, sometimes with retroactive effect. In addition, a number of requirements must be met in order for particular compensation to so qualify. As such, there can be no assurance that any compensation awarded or paid under the Performance Bonus Plan will be fully deductible under all circumstances. For fiscal 2013, our annual cash incentive awards were designed to reward our executives, including the NEOs, based on the Company's performance and the individual executive's contribution to that performance. In establishing the fiscal 2013 cash incentive award program, the Compensation Committee determined that the award opportunities for all of our executives, including the NEOs, should be closely linked to achieving corporate performance objectives.

The bonus pool under the Performance Bonus Plan only funds if the corporate performance objectives established by the Compensation Committee are achieved at threshold levels established by the Compensation Committee. For each NEO, 65% of the target award payment is based on our Company's performance and 35% of the target award payment is based on achievement of individual performance metrics, but both components are contingent on the bonus pool funding and are therefore entirely at risk. Accordingly, if the bonus pool does not fund, no executive would be entitled to any cash incentive under the Performance Bonus Plan, regardless of such executive's performance against his or her individual goals.

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To the extent the bonus pool funds, the Performance Bonus Plan entitles each executive to 65% of the funded percentage of his or her target award payment due to Company performance, provided that the Compensation Committee may exercise negative discretion to reduce the overall funding percentage and/or to reduce any individual award. The Compensation Committee (and the independent members of the Board of Directors, for our CEO) has discretion to award more or less than the remaining 35% of the funded percentage of each executive's target award, provided that payments to the executive team as a whole may not exceed pro rata funding of the bonus plan (such that the executive team as a whole may not receive greater than the funded percentage of the target awards payable to that group as a whole), and in no case may any executive receive in excess of 150% of his or her target award for fiscal 2013.

For fiscal 2013, the Compensation Committee established three specific corporate performance measures, namely revenue, gross margin and backlog. The performance measures were applicable in the same manner to all of our executives, including the NEOs. The Compensation Committee set target amounts and minimum funding thresholds with respect to each performance measure, requiring that the Company achieve the minimum threshold set for each measure, in order for any funding to occur relative to that measure. The performance measures and their relative weightings, target amounts and minimum funding thresholds for fiscal 2013, as well as the actual performance measures attained and their respective weights, were as follows:

Performance Measure	**Weighting**	**Target**	**Minimum Threshold**	**Actual**	**% Plan Attained**	**Weighted % Plan Attained**
Revenue	30%	$455 million	$401 million (88.1%)	$316 million	69.5	0
Gross Margin	20%	41%	38.5% (93.9%)	34%	83.0	0
Net Dollars into Backlog	50%	$271 million	$253 million (93.4%)	$185 million	68.3	0

Each measure will be calculated based on non-GAAP numbers, which will be calculated in a manner consistent with the non-GAAP numbers reported in our quarterly earnings releases, provided that the Compensation Committee may, in its discretion, approve additional exclusions in the nature of one-time occurrences, extraordinary items or events outside management's control. To be reported in our backlog, an order must meet the Company's fiscal 2013 backlog criteria. The Compensation Committee assessed corporate performance with respect to each of the three performance measures and determined that threshold performance had not been achieved for each measure and as such, the bonus pool under the Performance Bonus Plan did not fund.

Fiscal 2014 Cash Incentive Awards Performance Bonus Plan

For fiscal 2014, the Compensation Committee revised the Performance Bonus Plan by introducing a strategic objective the implementation of one common customer relationship management platform across the entire Company in addition to the Company's financial measures. Furthermore, the Compensation Committee replaced revenue in the financial metric with operating expenses and adjusted the weighting of metrics in the Performance Bonus Plan as follows:

Fiscal 2014 Performance Bonus Plan Metrics

I. Financial Metrics (80%):	Operating Expenses	20%
	Net Dollars into Backlog	40%
	Gross Margin	20%
II. Strategic Objective (20%):	Implementation of CRM platform across entire Company	20%

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Each financial measure will be calculated based on non-GAAP numbers, which will be calculated in a manner consistent with the non-GAAP numbers reported in our quarterly earnings releases, provided that the Compensation Committee may, in its discretion, approve additional exclusions in the nature of one-time occurrences, extraordinary items or events outside management's control. To be reported in our backlog, an order must meet the Company's fiscal year 2014 backlog criteria.

The target bonuses for our NEOs, as a percentage of base salary, did not change from their prior year's percentages. For fiscal 2014, 80% of each executive's annual cash incentive awards will be dependent on achieving the Company's financial measures, and 20% will be dependent on achieving the strategic objective, provided that there will be no funding of the strategic objective component unless at least one of the financial metrics meets its threshold to fund. The Compensation Committee felt it was more appropriate to tie 100% of the executives' target bonus payments to Company performance and not individual objectives, thus further aligning the interests of our executives to those of our stockholders.

Equity Compensation

We believe that equity awards provide a strong alignment between the interests of our executives, including the NEOs, and our stockholders. Accordingly, the Compensation Committee seeks to provide motivation to our executives through the use of equity awards consistent with the reasonable management of the Company's overall equity compensation expense and stockholder dilution. The Compensation Committee grants equity awards to our executives, including the NEOs, in the first quarter of each fiscal year, as a reward for past corporate and individual performance, as an incentive for future performance, and as a retention tool. Historically our executive equity awards consisted entirely of stock options and restricted stock unit ("RSU") awards, but in fiscal 2012, our executives were granted performance-based RSUs ("PSUs") in addition to stock options and RSUs. In fiscal 2013, our executives were granted market performance-based RSUs ("MSUs") in addition to stock options and RSUs. The size of an executive's equity award is determined by the Compensation Committee after considering his or her performance against his or her individual goals and objectives over the last fiscal year as evaluated by our CEO (or, with respect to the CEO, as evaluated by our Board of Directors), an evaluation of his or her total compensation package, an evaluation of his or her accumulated equity holdings, the critical nature of the executive's position relative to the Company's success, the Company's retention needs, the Relevant Market Data, internal equity, role hierarchy and such other factors as the Compensation Committee determines relevant.

Fiscal 2013 Equity Awards

For fiscal 2013, the CEO proposed equity grant numbers to the Compensation Committee for each of the executive officers, other than himself. The Compensation Committee reviewed the CEO's recommendations, and after assessing each executive's individual performance and outstanding equity holdings, internal equity, role hierarchy and retention needs, determined the awards it wished to approve for each executive, other than the CEO. For each of the executives other than the CEO, the Compensation Committee decided to award a mix of equity vehicles that include stock options, RSUs and MSUs, such that, on average, approximately 35% of the shares granted were in the form of stock options, 40% were in the form of RSUs, and 25% were in the form of MSUs. For the new hire grant for Mr. Levine, our CEO, the independent members of our Board of Directors decided that in order to obtain a qualified replacement CEO with the sales and marketing experience the Company needed, it was more appropriate to award a mix of equity vehicles such that approximately 40% of the shares granted were in the form of stock options, 40% were in the form of RSUs and 20% were in the form of MSUs.

The Compensation Committee believes that tying a portion of the executives' equity to performance criteria better aligns the executives' goals with both the Company's strategic plans and

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with the interests of the Company's stockholders. In fiscal 2013, the Compensation Committee approved our 2013 MSU Program with performance periods ending in fiscal 2014 and fiscal 2015, further linking the compensation of participants in this program to the creation of long-term stockholder value. The 2013 MSU Program uses the Russell 2000 index as a performance benchmark and requires that the Company's TSR exceed that of the Russell 2000 in order for a certain number of shares to be earned by each participating executive, including participating NEOs, on a sliding scale based on how much the Russell 2000 benchmark is exceeded, up to a maximum of 150% of the target number of shares. We are still within the measurement periods for the MSU Program and to date, although shares have been granted to the executives, no shares have vested pursuant to MSU awards under the 2013 MSU Program.

The equity awards made to the NEOs in fiscal 2013 are reported in the Summary Compensation Table below. Additional information about these awards, including the number of shares subject to each award and the award's grant date fair value and applicable vesting schedules, is reported in the Grants of Plan-Based Awards Table below.

Fiscal 2014 Equity Awards

Equity awards for fiscal 2014 consist of a mix of equity vehicles, including RSUs and MSUs under a new MSU program (the "2014 MSU Program"). The Compensation Committee has moved away from stock options awards for fiscal 2014 but may choose to award them in the future. The amount of equity, if any, awarded by the Compensation Committee to executive officers varies based upon an executive's individual performance, an evaluation of his or her total compensation package, an evaluation of his or her accumulated equity holdings, the critical nature of the executive's position relative to the Company's success, the Company's retention needs, the Relevant Market Data, internal equity, role hierarchy and such other factors as the Compensation Committee determines relevant. For Mr. Levine, our CEO, the independent members of our Board of Directors decided to award of mix of equity vehicles for fiscal 2014 such that approximately 50% were in the form of RSUs and 50% were in the form of MSUs.

The Compensation Committee approved the 2014 MSU Program, which, similar to the 2013 MSU Program, is also designed to tie NEO compensation to performance over a three-year period as awards only vest based on performance at the end of performance periods ending at fiscal year-end 2015 and 2016. The 2014 MSU Program uses the Russell 2000 index as a performance benchmark and requires that the Company's TSR match that of the Russell 2000 in order for a certain number of shares to be earned by each participating executive, including participating NEOs, on a sliding scale based on whether the Russell 2000 benchmark is met, not met or exceeded, up to a maximum of 150% of the target number of shares.

Patent Award Program

The Company maintains a patent award program, the purpose of which is to encourage, recognize and reward creativity and innovation. All regular, full time Company employees, including executives, are eligible to participate in this program. Various levels of awards are provided to encourage and reward identification and submission of invention disclosures, subsequent filing of patent applications and final issuance of a United States patent. The various awards provided under the program are as follows:

- $50 is awarded to each named employee on an invention disclosure.

- $1,000 is awarded to each named inventor in an original non-provisional patent application filed with the U.S. Patent and Trademark Office.

- $2,000 is awarded to each named inventor in an issued U.S. patent.

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In the event more than three inventors file patent applications or are granted patents, the maximum awards are $3,000 and $6,000, respectively, to be shared equally among the inventors who are Company employees. Inventors who are not full-time Company employees at the time the award is made are not eligible to receive the award.

Awards are made on the last day of the fiscal quarter in which the award was earned. The Company's patent committee or Senior Vice President and General Counsel may increase the monetary awards identified above on a case-by-case basis in extraordinary circumstances.

In addition, it is the Company's practice to reimburse employees who receive awards under the program for any taxes they are required to pay with respect to such awards due to the potential benefits that ultimately pass through to the Company as a result of the successful use of the patented technology.

Employment, Change in Control and Severance Arrangements

We have entered into employment agreements with each of our executives, including the NEOs, to document the material terms and conditions of the executives' employment, including his or her annual base salary, target annual cash incentive award opportunity and equity awards. The agreements specify the payments and benefits that each executive will receive upon a potential termination of his or her employment under certain circumstances. In addition, these agreements protect the Company's interests in the event of a termination of employment by stipulating the rights and responsibilities of the parties and prohibiting these individuals from engaging in certain specific activities harmful to the Company, including disclosing the Company's confidential information, soliciting the Company's employees, and engaging in certain competitive business activities.

These arrangements were entered into for the following reasons:

- Assist us in retaining talented executives in a competitive market;
- Permit our executives to focus on the business of the Company;
- Eliminate any potential personal bias of an executive against a transaction that is in the best interest of the Company and its stockholders;
- Avoid the need for, and costs associated with, individually negotiating severance payments and benefits with our executives at the time of termination; and
- Provide the Company with the flexibility needed to react to a continually changing business environment.

The Compensation Committee believes that these agreements serve several other important objectives. First, they provide a desired level of transparency, both within and outside the Company. Internal transparency benefits the Company by eliminating the need to negotiate severance benefits on a case-by-case basis at the time of termination. They also assure our executives that their severance benefits are based on a consistent framework that differentiates the level of payments and benefits between individuals based on their position and level of responsibility. In addition, this approach is easier for the Company to administer and requires less administrative time and expense than negotiating severance benefits at the time of termination.

Generally, our executives, including the NEOs, are eligible for severance payments and benefits in the event of the termination of their employment by the Company without "cause" or by the executive for "good reason". We believe that the agreements contain severance provisions that are generally comparable to the benefits of similarly situated executives in a peer group established by the Compensation Committee, in each case, provided that the executive executes a general release of claims.

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In the case of our NEOs, we renewed each executive's employment agreement effective January 1, 2013 (other than Mr. Levine, who was hired in October of 2012 and entered into a new employment agreement at that time). In addition, on April 16, 2013 in connection with their respective promotions, we amended each of Ms. Londy's and Mr. Ragusa's employment agreements to reflect their new titles and base salaries. Each NEO's employment agreement provides that the NEO's employment is "at will" and describes the payments and benefits that each such NEO will receive upon a termination of his or her employment under certain circumstances or in the event of a termination upon a change in control of the Company. For additional information, see "*Potential Payments and Benefits Upon Termination or Change in Control*", below.

On October 12, 2012, we entered into an employment agreement with Mr. Levine in connection with his appointment as our President and Chief Executive Officer. Mr. Levine's employment agreement provides for an annual base salary of $625,000 as well as for reimbursement of reasonable business expenses and temporary housing expenses for up to 90 days, and for other customary benefits. Mr. Levine is also eligible for an annual performance bonus pursuant to the Company's Performance Bonus Plan, with the target amount of such bonus set at 120% of Mr. Levine's annual base salary. Mr. Levine's employment agreement provides for the Company to grant to Mr. Levine a stock option to purchase 200,000 shares of the Company's common stock at a per share exercise price equal to the fair market value of a share of the Company's stock on the grant date. Such options shall vest at a rate of 25% on the first anniversary of the grant date and thereafter at a rate of 1/48th of the options monthly until the options are fully vested on the fourth anniversary of the grant date. Mr. Levine's employment agreement also provides for the grant to him of (i) 200,000 RSUs which are to vest in four equal annual installments and (ii) a total of 300,000 Company stock performance-based MSUs, of which 100,000 MSUs are to be granted in November 2012 and 200,000 MSUs are to be granted in February 2013. Mr. Levine's agreement contains customary benefits and non-disclosure and non-solicitation provisions.

Mr. Levine is entitled under his employment agreement to severance benefits in the event of termination of his employment by the Company without cause, including a lump sum payment equal to the amount of base salary he would be due in the 12 months following a termination without cause, a prorated portion of his target bonus for the fiscal year in which his employment terminates, reimbursement of insurance premiums, payment for outplacement services and other customary benefits. In the event of Mr. Levine's termination of employment because of death or incapacity, Mr. Levine's employment agreement provides for the acceleration of the vesting period for stock options and RSUs previously granted to Mr. Levine that would have vested within 12 months of his termination. In the event of a change in control of the Company (as defined in the agreement) in which the successor company fails to offer Mr. Levine the position of President and Chief Executive Officer or fails to assume the Company's obligation under the employment agreement, Mr. Levine shall be entitled to enhanced severance benefits, including two times the severance payment otherwise provided for in the Employment Agreement, 200% of the target bonus for the fiscal year in which the change in control occurs, and the acceleration of all outstanding unvested stock options and RSUs, as well as other customary benefits.

Post-Employment Compensation Retirement Plans

Other than our tax-qualified Section 401(k) employee savings plan described in the following paragraph, we do not currently maintain, nor do we have plans to provide, pension arrangements, retirement plans or nonqualified deferred compensation plans or arrangements for our executives, including the NEOs, and other employees.

We maintain a tax-qualified Section 401(k) employee savings plan that provides all regular employees with an opportunity to save for retirement on a tax-advantaged basis. Under this plan, participants may elect to defer a portion of their annual compensation on a pre-tax basis and have it

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contributed to the plan subject to applicable annual Code limits. Pre-tax contributions are allocated to each participant's individual account and are then invested in selected investment alternatives according to the participants' directions. The Company matches 50% of participant contributions to the plan, up to a maximum contribution of six percent of base salary per participant per year. Company matching contributions to the 401(k) employee savings plan vest over a period of four years, with the vesting percentage increasing by 25 percentage points on each of the first four anniversaries of an employee's service, such that on the fourth anniversary of an employee's service, the employee is fully vested in the Company matching contribution. As a tax-qualified retirement plan, contributions to the plan and earnings on those contributions are not taxable to participants until distributed from the plan and all contributions are deductible by us when made.

We view this plan as serving two important objectives. First, it encourages our executives, including the NEOs, and other employees to commit to long-term service with the Company. Second, it enables them to save a portion of their annual compensation for their eventual retirement.

Since the amounts set aside for retirement under the plan are largely drawn from participants' annual compensation and the Company matching contribution is modest, the Compensation Committee does not consider plan participation when making compensation decisions for our executives, including the NEOs.

Health, Welfare, and Other Employee Benefits (including Perquisites)

We provide health and welfare benefits to our executives, including the NEOs, on the same terms and conditions as all of our full-time, salaried employees. These benefits include group medical, life, and disability insurance.

In circumstances where the Company is recruiting a candidate who would have to move to accept our job offer, the Company may agree to reimburse certain of such employee's relocation expenses. For example, the Company agreed to reimburse Ms. Londy for certain temporary housing expenses, expenses incurred in connection with home-buying trips, home sale and home purchase expenses, moving expenses and travel expenses. The Company also agreed to reimburse Mr. Levine for temporary housing expenses for a period of up to 90 days.

We do not provide perquisites or other personal benefits to our executives, including the NEOs.

Other Compensation Policies

Stock Ownership Requirements

Our Board of Directors has adopted Corporate Governance Guidelines to help ensure that the Company is managed in the best long-term interests of the Company's stockholders, to promote effective functioning of the Board of Directors and its committees and to provide a flexible framework within which the Board of Directors may conduct its oversight of the Company's business. The Corporate Governance Guidelines include executive officer and non-employee director stock ownership requirements, which were amended and restated effective July 1, 2011 to become requirements rather than merely guidelines. The Corporate Governance Guidelines now require certain executive officers of the Company to own shares of the Company's common stock, as follows:

Non-employee directors: the number of shares having a value equal to at least three times the non-employee director's regular annual board cash retainer (excluding committee retainer);

Chief Executive Officer: the lesser of (a) the number of shares having a value equal to three times annual base salary and (b) 175,000 shares;

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Chief Financial Officer, Chief Commercial Officer and any other Executive Vice President: the lesser of (a) the number of shares having a value equal to one times annual base salary and (b) 40,000 shares; and

General Counsel: the lesser of (a) the number of shares having a value equal to one times annual base salary and (b) 17,500 shares.

Executive officers and non-employee directors have five years from the later of July 1, 2010 and the date of election or appointment to attain the foregoing ownership levels. The Company expects each executive officer and non-employee director to retain at least 25% of the net shares he or she receives pursuant to all Company equity awards (excluding shares sold to cover (i) the exercise price of any Company options and/or (ii) taxes), until the foregoing ownership levels are achieved. All of the NEOs who have been employed by the Company for more than one year and all non-employee directors are in compliance or are on track to be in compliance within the appropriate timeframe with the stock ownership requirements.

Recoupment ("Clawback") Policy

To further align our executive compensation program with the interests of the Company's stockholders, the Company's Performance Bonus Plan and 2007 Incentive Award Plan include a recoupment policy, which provides that, in the event the Company is required to restate its financial results or materially reduce publicly disclosed backlog figures, our Board of Directors will review the conduct of executive officers in relation to the restatement. If it determines that an executive officer has engaged in misconduct, or otherwise violated the Company's Code of Conduct and Ethics, and that such misconduct or violation contributed to the restatement or to the improper inclusion of a proposed system sale in publicly disclosed backlog, then our Board of Directors may, in its discretion, take appropriate action to remedy the misconduct or violation, including, without limitation, seeking reimbursement of any portion of any performance-based or incentive compensation paid or awarded to the executive officer that is greater than what would have been paid or awarded if calculated based on the restated financial results or materially reduced backlog figures, to the extent not prohibited by governing law. Our clawback policy will be updated and revised consistent with any changes in applicable laws.

Equity Award Grant Practices

Historically, the Compensation Committee has granted stock options, RSU and/or performance-based equity awards (PSUs or MSUs) to our employees, including our executives, when they first join the Company. Typically, new hire stock options, RSUs and performance-based equity awards are granted at the first meeting of the Compensation Committee in the month following an employee's first day of employment.

Follow-on awards are considered as part of our fiscal review process. We do not seek to time the grant of stock options, RSUs and performance-based equity awards to take advantage of information, either positive or negative, about the Company that has not been publicly disclosed.

We grant stock options with an exercise price that is equal to the fair market value of the shares of the Company's common stock on the date of grant. We do not have a policy of granting stock options with an exercise price that is less than the fair market value of the Company's common stock. The exercise price for our stock options is based on the last quoted price per share of the Company's common stock as reported on the NASDAQ Global Select Market on the date of grant.

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Hedging Policy

We also have an insider trading policy that prohibits trading in shares of the Company's common stock while in possession of material, non-public information, unless trading is in connection with a previously established Exchange Act Rule 10b5-1 plan, or if sold automatically by the Company on the date of vest to cover and pay the withholding tax requirements in accordance with Company policy. In addition, our insider trading policy prohibits all of our employees, including our NEOs, and our directors from engaging any speculative transactions in Company securities, including purchasing on margin, engaging in short sales, engaging in transactions in put options, call options or other derivative securities, or engaging in any other forms of hedging transactions.

Regulatory Considerations

Section 162(m) Deductibility of Remuneration in Excess of $1 Million

Section 162(m) of the Code limits the amount that the Company may deduct as compensation expense for federal income tax purposes with respect to the remuneration paid to our Chief Executive Officer and each of the three other most highly compensated executive officers of the Company (other than our Chief Financial Officer) to $1 million per person per year. There are certain exemptions to this deduction limit, including an exemption for remuneration that qualifies as "performance-based compensation" (that is, certain compensation that is payable solely upon achieving objective performance criteria).

We intend to operate our executive compensation program to maximize the deductibility of the remuneration paid to the NEOs to the extent that the Compensation Committee believes that doing so is in the best interests of the Company. Consequently, in determining which compensation elements are to be paid to our executives, and how they are weighted, the Committee intends to take into account whether a particular form of compensation will be deductible under Section 162(m). In addition, the Company's 2007 Incentive Award Plan has been designed to permit the Committee to grant stock options and other awards which will qualify as "performance-based compensation" under Section 162(m), and the Company's Performance Bonus Plan has also been designed to permit the annual incentive compensation grants made to executives to qualify as "performance-based compensation" under Section 162(m). The rules and regulations promulgated under Section 162(m) are complicated, however, and subject to change from time to time, sometimes with retroactive effective. In addition, a number of requirements must be met in order for particular compensation to so qualify. As such, there can be no assurance that any compensation awarded or paid under the Plan will be fully deductible under all circumstances.

While we cannot predict how the $1 million deduction limit may impact our executive compensation program in future years, the Compensation Committee intends to maintain an approach to executive compensation that strongly links pay to performance. However, the Committee may, in its judgment, authorize and pay compensation that does not satisfy the requirements of this or any of the other exemptions to the $1 million deduction limit when it believes that such compensation is necessary and appropriate to attract and retain key executives.

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EXECUTIVE COMPENSATION

Summary Compensation Table

The following table sets forth the compensation for each of fiscal years 2013, 2012 and 2011 earned by the following persons, who we refer to as our named executive officers or NEOs:

Our current principal executive officer;

Our former principal executive officer who served in that capacity during fiscal year 2013;

Our principal financial officer during fiscal year 2013;

Our three other most highly compensated executive officers who were serving as executive officers at the end of fiscal year 2013; and

One additional former executive officer who would have been a named executive officer if he had been serving as an executive officer at the end of fiscal year 2013.

Name and Principal Position	Year	Salary ($)(1)	Bonus ($)(2)	Stock Awards ($)(3)	Option Awards ($)(3)	Non-Equity Incentive Plan Compensation ($)(4)	All Other Compensation ($)(5)	Total ($)
Joshua H. Levine,	2013	473,485(6)		2,129,500	667,260		8,040	3,278,285
President and Chief	2012							
Executive Officer	2011							
Derek A. Bertocci,(7)	2013	330,180		336,462	102,054		11,986	780,682
Senior Vice President,	2012	320,190		50,125	91,404	143,990	12,166	617,875
Chief Financial Officer	2011	309,000		87,514	142,900	102,237	6,086	647,737
Chris A. Raanes,(8)	2013	148,034(9)		277,008	128,677		475,342	1,029,061
Former Executive Vice	2012	378,458		150,375	304,680	172,496	6,827	1,012,836
President, Chief	2011	351,216	1,000	87,514	142,900	116,292	8,407	707,329
Operating Officer								
Kelly Londy,	2013	331,450		686,052	75,432		12,963	1,105,897
Executive Vice President,	2012	226,667(10)		110,275	203,460	142,688	48,775	731,865
Chief Commercial Officer	2011							
Darren J. Milliken,(11)	2013	278,434		238,714	72,473		5,297	594,918
Senior Vice President,	2012	256,845		27,068	52,812	88,849	4,621	430,195
General Counsel and	2011							
Corporate Secretary								
Robert Ragusa,(12)	2013	303,981		784,867	55,464		12,249	1,156,561
Executive Vice President,	2012							
Engineering & Global	2011							
Operations								
Euan S. Thomson, Ph.D.(13)	2013	154,729					1,164,525	1,319,254
Former President and	2012	526,000	2,050	128,320	162,496	234,543	9,917	1,063,326
Chief Executive Officer	2011	509,375	2,550	252,014	450,490	252,075	5,751	1,472,255

(1) Amounts shown reflect salary amounts paid to each NEO during each respective fiscal year. Amounts shown in the salary column for 2013 are comprised of the salary rate paid through September 30, 2012 and the increased rate approved by the Board of Directors beginning October 1, 2012.

(2) Refers to bonus payments for patent inventions under the Company's standard policy applicable to all employees on the same terms.

(3) The amounts shown represent the aggregate grant date fair value of stock awards and stock options as determined in accordance with FASB ASC Topic 718. These amounts may not actually reflect to the actual value that will be realized by our NEOs. The assumptions used to calculate the value of stock awards and stock options are set forth under Note 2 and Note 10 of the Notes to Consolidated Financial Statements contained in our Annual Report on Form 10-K for the fiscal year ended June 30, 2013.

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(4)

Amounts reflect annual cash incentive awards earned under our Performance Bonus Plan for each fiscal year. Amounts earned in any fiscal year are actually paid in the following fiscal year. No annual incentive award payments were earned for fiscal 2013.

(5)

All Other Compensation consists of the following:

Name	Year	Company matching contribution to 401(k) Plan ($)	Company matching contribution to Flexible Spending Account ($)	Life insurance premiums paid by the Company ($)	Relocation Expense Reimbursement ($)	Payments made upon Termination
Joshua Levine(a)	2013	5,859		666	1,514	
Derek A. Bertocci	2013	11,395		591		
Chris A. Raanes	2013			222		475,120
Kelly Londy(b)	2013	5,586		586	6,790	
Darren Milliken	2013	4,791		506		
Robert Ragusa(c)	2013	11,735		524		
Euan S. Thomson, Ph.D.	2013	4,693		166		1,159,666

(a)

Mr. Levine's employment agreement provided that the Company would reimburse Mr. Levine for reasonable out of pocket expenses incurred for temporary housing for up to 90 days from the effective date of the employment agreement. The Company reimbursed $1,514 of such expenses in fiscal 2013.

(b)

Ms. Londy's Employment Letter Agreement provided that the Company would provide certain relocation assistance to Ms. Londy for her relocation to California. The relocation assistance included temporary housing for up to 4 months, reimbursement of certain expenses incurred in connection with home buying trips, reimbursement of certain home sale and home purchase expenses, reimbursement of certain moving expenses, and reimbursement of travel expenses for up to three return trips to Michigan. The Company reimbursed $6,790 of such expenses in fiscal 2013.

(c)

On September 30, 2013, Mr. Ragusa provided us with notice of his intent to resign from the Company and that his last day of employment will be on December 2, 2013.

(6)

Mr. Levine's salary amount for fiscal 2013 reflects his employment having commenced on October 12, 2012.

(7)

Mr. Bertocci resigned from the Company effective September 2, 2013.

(8)

Mr. Raanes resigned from the Company effective November 16, 2012.

(9)

Mr. Raanes' salary amount for fiscal 2013 reflects his salary through his date of resignation on November 16, 2012.

(10)

Ms. Londy's salary amount for fiscal 2012 reflects her employment having commenced on October 1, 2011.

(11)

Mr. Milliken was not a named executive officer of the Company in fiscal 2011; therefore, this table does not provide 2011 data for him.

(12)

Mr. Ragusa was not a named executive officer of the Company in fiscal 2011 or 2012; therefore, this table does not provide 2011 data for him. On September 30, 2013, Mr. Ragusa provided us with notice of his intent to resign from the Company and that his last day of employment will be on December 2, 2013.

(13)

Dr. Thomson resigned from the Company effective October 11, 2012.

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Grants of Plan-Based Awards for Fiscal 2013

The following table sets forth information regarding awards granted under our annual cash incentive plan and equity awards made under our 2007 Incentive Award Plan to each of our NEOs during the fiscal year ended June 30, 2013. The per-share exercise price of each stock option grant was not less than the fair market value of our Company's common stock on the date of grant (which was the closing price of a share of our common stock on the NASDAQ Global Select Market on the date of grant).

Name	Grant Date	Date of Board Action to Grant the Award	Estimated Future Payouts Under Non-Equity Incentive Plan Awards(1) Threshold($)(2)	Target ($)(3)	Maximum ($)(4)	Estimated Future Payouts Under Equity Incentive Plan Awards(8) Threshold(#)	Target (#)	Maximum (#)	All Other Stock Awards: Number of Shares of Stock or Units (#)(5)	All Other Option Awards: Number of Securities Underlying Options (#)(6)	Exercise or Base Price of Option Awards ($/Sh)	Grant Date Fair Value of Stock and Option Awards ($)(7)
Joshua Levine	11/30/12	10/22/12								200,000	6.28	667,260
	11/30/12	10/22/12							200,000			1,256,000
	11/30/12	10/22/12				0	50,000	75,000				284,000
	11/30/12	10/22/12				0	50,000	75,000				307,500
	2/28/13	2/26/13				0	100,000	150,000				100,000
	2/28/13	2/26/13				0	100,000	150,000				182,000
			150,000	750,000	1,125,000							
Derek A. Bertocci(9)	10/31/12	10/10/12								27,600	6.96	102,054
	10/31/12	10/10/12							31,600			219,936
	10/31/12	10/10/12				0	9,850	14,775				55,948
	10/31/12	10/10/12				0	9,850	14,775				60,577
			43,238	216,190	324,285							
Chris A. Raanes(10)	10/31/12	10/10/12								34,800	6.96	128,676
	10/31/12	10/10/12							39,800			277,008
			51,805	259,025	388,538							
Kelly Londy	10/31/12	10/10/12								20,400	6.96	75,431
	10/31/12	10/10/12							23,300			162,168
	12/31/12	10/10/12							27,500			173,525
	4/30/13	4/5/13							60,000			264,000
	10/31/12	10/10/12				0	7,300	10,950				41,464
	10/31/12	10/10/12				0	7,300	10,950				44,895
			45,500	227,500	341,250							
Darren J. Milliken	10/31/12	10/10/12								19,600	6.96	72,473
	10/31/12	10/10/12							22,400			155,904
	10/31/12	10/10/12				0	7,000	10,500				39,760
	10/31/12	10/10/12				0	7,000	10,500				43,050
			28,490	142,450	213,675							
Robert Ragusa(11)	10/31/12	10/10/12								15,000	6.96	55,464
	10/31/12	10/10/12							17,100			119,016
	4/30/13	4/5/13							80,000			352,000
	10/31/12	10/10/12				0	5,350	8,025				30,388
	10/31/12	10/10/12				0	5,350	8,025				32,902
	10/31/12	10/10/12							4,500(12)			31,320(12)
	10/31/12	10/10/12							4,500(12)			31,320(12)
	10/31/12	10/10/12							4,500(12)			31,320(12)
	10/31/12	10/10/12							4,500(12)			31,320(12)
	10/31/12	10/10/12							4,500(12)			31,320(12)
	10/31/12	10/10/12							4,500(12)			31,320(12)
	10/31/12	10/10/12							4,500(12)			31,320(12)
	10/31/12	10/10/12							4,500(12)			31,320(12)
			45,500	227,500	341,250							
Euan S. Thomson, Ph.D.(13)												

(1) The Estimated Future Payouts Under Non-Equity Incentive Plan Awards columns refer to the potential payouts under our annual cash incentive plan, the Performance Bonus Plan.

(2) This column reflects the threshold award opportunity that would have been payable to the NEOs for our fiscal year ended June 30, 2013, assuming that the minimum threshold amount for each of the three Company performance measures under the Performance Bonus Plan is achieved, resulting in 20% funding of the Performance Bonus Plan pool. In the event of a 20% funding of the Performance Bonus Plan, each executive would be entitled to 20% of the 65% of such executive's target award amount attributable to Company performance. The calculations in this column assume a determination by our Board of Directors that each NEO achieved his or her individual qualitative performance goals such that he or she was entitled to exactly the 20% funded amount of the 35% of his or her annual cash incentive award tied to such executive's individual performance. The potential payments are, however, performance-driven and therefore entirely at risk, such that if the Company had not met any of the minimum thresholds, the Performance Bonus Plan pool would not have funded at all, and none of the NEOs would have been entitled to any incentive award.

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(3)
This column shows the annual target award opportunities that would have been payable to the NEOs for our fiscal year ended June 30, 2013, assuming that the target amount for each of the three Company performance measures under the Performance Bonus Plan is achieved, resulting in 100% funding of the Performance Bonus Plan pool. The calculations in this column assume a determination by our Board of Directors that each NEO achieved the individual qualitative performance goals such that he or she was entitled to full funding of the 35% of his or her annual cash incentive award tied to such individual performance.

(4)
This column shows the annual maximum award opportunity that would have been payable to NEOs for our fiscal year ended June 30, 2013. This amount is calculated at 150% of the target amount.

(5)
Unless otherwise noted, the RSU grants reflected in this column will vest in annual installments over four years from the vesting commencement date on October 1, 2012.

(6)
Represents annual stock options granted to NEOs. The stock option grants reflected in this column vest in equal monthly installments over 48 months from the vesting commencement date on October 1, 2012, subject to continued active employment on the applicable vesting date. All options have a term of 10 years from the date of grant.

(7)
The amounts in this column represent the grant date fair value of each award, as determined in accordance with FASB ASC Topic 718.

(8)
The Estimated Future Payouts Under Equity Incentive Plan Awards columns represent the minimum, target, and maximum number of MSUs that, upon converting to shares of Company common stock, could be received by each listed officer. MSU Awards granted to the listed officers in fiscal year 2012 have a two-year performance period and a three-year performance period, each beginning on July 1, 2012, and 50% of the shares vest on the last day of each Performance Period, subject to the certification of certain Performance Criteria by the Compensation Committee. The number of shares of Company common stock to be received at vesting will range from 0% to 150% of the target amount, based on the total shareholder return ("TSR") of Company common stock measured against the TSR of the Russell 2000 Index at the end of each performance period. The TSR is based upon the percentage increase or decrease between the average closing stock price over the fiscal quarter preceding the beginning and end of the performance periods. The Company does not pay any dividends.

(9)
Mr. Bertocci resigned from the Company effective September 2, 2013.

(10)
Mr. Raanes resigned from the Company effective November 16, 2012.

(11)
On September 30, 2013, Mr. Ragusa provided us with notice of his intent to resign from the Company and that his last day of employment will be on December 2, 2013.

(12)
These award was granted as Performance Stock Units tied to specific milestones, to be awarded in four equal increments upon the achievement of each milestone. The performance period was from July 1, 2012 to June 30, 2014, or 24 months. Each installment award vest 50% upon certification of the milestone and 50% one year after the milestone is certified. Mr. Ragusa achieved the performance milestones and 50% of the PSU vested.

(13)
Dr. Thomson resigned from the Company effective October 11, 2012.

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Outstanding Equity Awards at Fiscal 2013 Year-End

The following table sets forth the exercisable and unexercisable stock options and other stock awards held by our NEOs as of June 30, 2013. Market events will not occur in the future.

(b) This adjustment relates to certain restructuring charges that are not included in the restructuring and impairment charges line item on our consolidated statements of operations. These items are included in selling, general and administrative expenses in our consolidated statements of operations and are comprised of a charge of $13.3 million for restructuring-related professional fees and related expenses for 2009. We do not believe these other restructuring charges are indicative of our core ongoing operating performance because these charges were related, in significant part, to actions we took in response to the impacts on our business resulting from the global economic recession that persisted through 2008 and 2009. We cannot guarantee that similar charges will not be incurred in the future.

(c) This adjustment eliminates the impact of largely non-cash reorganization income and expense items directly associated with our reorganization proceedings from our ongoing operations including, among others, professional fees, the revaluation of assets, the effects of the Chapter 11 reorganization plan and fresh-start accounting principles and the write-off of debt issuance costs. Included in reorganization items, net for the ten-month period ended October 25, 2009 was our predecessor s gain recognized from the effects of our reorganization proceedings. The gain results from the difference between our predecessor s carrying value of remaining pre-petition liabilities subject to compromise and the amounts to be distributed pursuant to the reorganization proceedings. The gain from the effects of the reorganization proceedings and the application of fresh-start accounting principles is comprised of the discharge of liabilities subject to compromise, net of the issuance of new common units and new warrants and the accrual of amounts to be settled in cash. For details regarding this adjustment, see Note 6 to the consolidated financial statements of MagnaChip Semiconductor Corporation included elsewhere in this Report. We do not believe these items are indicative of our core ongoing operating performance because they were incurred as a result of our Chapter 11 reorganization.

(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 impact of non-cash foreign currency translation associated with intercompany debt obligations and foreign currency denominated receivables and payables, as well as the cash impact of foreign currency transaction gains or losses on collection of such receivables and payment of such payables. Although we expect to incur foreign currency translation gains or losses in the future, we believe that analysts and investors will find it helpful to review our operating performance without the effects of these primarily non-cash gains or losses, as supplemental information.

(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.

(h) This adjustment eliminates the one-time impact of incentive payments to all employees excluding management in connection with the MagnaChip Corporation IPO.

(i) This adjustment eliminates the impact of loss on repurchase of $46.3 million of our senior notes for the year ended December 31, 2011.

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

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

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

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

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

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

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

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

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

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

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

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

Adjusted Net Income is not a measure defined in accordance with GAAP and should not be construed as an alternative to income from continuing operations, cash flows from operating activities or net income (loss), as determined in accordance with GAAP. We encourage you to evaluate each adjustment and the reasons we consider them appropriate. Other companies in our industry may calculate Adjusted Net Income differently than we do, limiting its usefulness as a comparative measure. In addition, in evaluating Adjusted Net Income, you should be aware that in the future we may incur expenses similar to the adjustments in this presentation. We define Adjusted Net Income as net income (loss) less income 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 accounting inventory step-up, (v) equity-based compensation expense, (vi) amortization of intangibles associated with continuing operations, (vii) foreign currency loss (gain), net, (viii) derivative valuation loss, net, (ix) one-time incentive payments in connection with the MagnaChip Corporation IPO and (x) loss on early extinguishment of senior notes.

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

	Successor			Predecessor
	Year Ended December 31, 2011	**Year Ended December 31, 2010**	**Two-Month Period Ended December 31, 2009**	**Ten-Month Period Ended October 25, 2009**
	(In millions)			
Net income (loss)	$ 21.8	$ 74.1	$ (2.0)	$ 841.1
Less: Income from discontinued operations, net of taxes			0.5	6.6
Income (loss) from continuing operations	21.8	74.1	(2.5)	834.5
Adjustments:				
Restructuring and impairment charges(a)	4.1	2.0		0.4
Other restructuring charges(b)				13.3
Reorganization items, net(c)				(804.6)
Inventory step-up(d)		0.9	17.2	
Equity-based compensation expense(e)	2.2	5.2	2.2	0.2
Amortization of intangibles associated with continuing operations(f)	8.1	21.0	5.6	8.8
Foreign currency loss (gain), net(g)	11.6	(14.7)	(9.3)	(43.4)
Derivative valuation loss, net(h)	1.0	0.7		

Special expense for IPO incentive(i)	12.1			
Loss on early extinguishment of senior notes(j)	5.5			
Adjusted Net Income (Loss)	$ 66.4	$ 89.2	$ 13.3	$ 9.3

(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 2011, restructuring charges of $1.6 million related to the closure of our research and development center in Japan and sales subsidiary in the U.K. and impairment charges related to $2.0 million from twelve abandoned in-process research and development projects and one dropped existing technology, $0.4 million from one abandoned system project and $0.1 million from impairment of tangible and intangible assets, (ii) for 2010, impairment charges of $2.0 million recorded, of which $1.6 million of impairment charges were recognized for abandoned in-process research and development projects and $0.4 million of impairment charges were recognized as a result of an annual impairment test of in-process research and development, accounted for as indefinite-lived intangible assets as part of the application of fresh-start accounting and (iii) for 2009, termination benefits and other related costs, for the ten-month period ended October 25, 2009 in connection with the closure of one of our research and development facilities in Japan. We do not believe these restructuring and impairment charges are indicative of our core ongoing operating performance because we do not anticipate similar facility closures and market driven events in our ongoing operations, although we cannot guarantee that similar events will not occur in the future.

(b) This adjustment relates to certain restructuring charges that are not included in the restructuring and impairment charges line item on our consolidated statements of operations. These items are included in selling, general and administrative expenses in our consolidated statements of operations and comprised of a charge of $13.3 million for restructuring-related professional fees and related expenses for 2009. We do not believe these other restructuring charges are indicative of our core ongoing operating performance because these charges were related, in significant part, to actions we took in response to the impacts on our business resulting from the global economic recession that persisted through 2008 and 2009. We cannot guarantee that similar charges will not be incurred in the future.

(c) This adjustment eliminates the impact of largely non-cash reorganization income and expense items directly associated with our reorganization proceedings from our ongoing operations including, among others, professional fees, the revaluation of assets, the effects of the Chapter 11 reorganization plan and fresh-start accounting principles and the write-off of debt issuance costs. Included in reorganization items, net for the ten-month period ended October 25, 2009 was our predecessor s gain recognized from the effects of our reorganization proceedings. The gain results from the difference between our predecessor s carrying value of remaining pre-petition liabilities subject to compromise and the amounts to be distributed pursuant to the reorganization proceedings. The gain from the effects of the reorganization proceedings and the application of fresh-start accounting principles is comprised of the discharge of liabilities subject to compromise, net of the issuance of new common units and new warrants and the accrual of amounts to be settled in cash. For details regarding this adjustment, see Note 6 to the consolidated financial statements of MagnaChip Semiconductor Corporation included elsewhere in this Report. We do not believe these items are indicative of our core ongoing operating performance because they were incurred as a result of our reorganization proceedings.

(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. We do not believe these non-cash amortization expenses for intangibles are indicative of our core ongoing operating performance because the assets would not have been capitalized on our balance sheet but for the application of purchase accounting or fresh-start accounting, as applicable.

(g) This adjustment eliminates the impact of non-cash foreign currency translation associated with intercompany debt obligations and foreign currency denominated receivables and payables, as well as the cash impact of foreign currency transaction gains or losses on collection of such receivables and payment of such payables. Although we expect to incur foreign currency translation gains or losses in the future, we believe that analysts and investors will find it helpful to review our operating performance without the effects of these primarily non-cash gains or losses, as supplemental information.

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

(i) This adjustment eliminates the one-time impact of incentive payments to all employees excluding management in connection with the MagnaChip Corporation IPO.

(j) This adjustment eliminates the impact of loss on repurchase of $46.3 million of our senior notes for the year ended December 31, 2011.

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

- Adjusted Net Income does not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments;
- Adjusted Net Income does not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted Net Income does not consider the potentially dilutive impact of issuing equity-based compensation to our management team and employees;
- Adjusted Net Income does not reflect the costs of holding certain assets and liabilities in foreign currencies; and
- other companies in our industry may calculate Adjusted Net Income differently than we do, limiting its usefulness as a comparative measure.

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

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

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

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 2,975 registered novel patents and 425 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 center in Korea place us at the core of the global consumer electronics supply chain. We believe this enables us to quickly and efficiently respond to our customers needs and allows us to better 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. 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.

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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.

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Controls and Procedures

In connection with the audits of our consolidated financial statements for the ten-month period ended October 25, 2009 and two-month period ended December 31, 2009, our independent registered public accounting firm reported two control deficiencies which represented a material weakness in our internal control over financial reporting. The two control deficiencies were that we did not have a sufficient number of financial personnel with requisite financial accounting experience and that our internal controls over non-routine transactions were not effective to ensure that accounting considerations are identified and appropriately recorded. We identified and took steps to remediate this material weakness. Based on assessments of the remediation actions taken, our management concluded that those two control deficiencies which represented a material weakness no longer existed as of December 31, 2010. See Item 9A. Controls and Procedures for management s remediation initiatives.

Recent Developments

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.

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.

On April 9, 2010, we completed the sale of $250.0 million in aggregate principal amount of 10.500% senior notes due 2018, which we refer to as the senior notes. Of the $238.4 million of net proceeds, $130.7 million was used to make a distribution to our equityholders 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.

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

Prior to the MagnaChip Corporation IPO, our board of directors and the holders of a majority of our outstanding common units converted MagnaChip Semiconductor LLC from a Delaware limited liability company to MagnaChip Semiconductor Corporation, a Delaware corporation. In connection with the corporate conversion, outstanding common units of MagnaChip Semiconductor LLC were automatically converted into shares of common stock of MagnaChip Semiconductor Corporation, outstanding options to purchase common units of MagnaChip Semiconductor LLC were automatically converted into options to purchase shares of

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common stock of MagnaChip Semiconductor Corporation and outstanding warrants to purchase common units of MagnaChip Semiconductor LLC were automatically converted into warrants to purchase shares of common stock of MagnaChip Semiconductor Corporation, all at a ratio of one share of common stock for eight common units.

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

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

On October 11, 2011, we announced that our board of directors adopted a stock repurchase program whereby we may, subject to prevailing market conditions and other factors, repurchase up to $35.0 million of our outstanding common stock. The stock repurchase program began on October 27, 2011 and will end on October 27, 2012 unless earlier terminated by our board. The stock repurchase program does not require that we purchase a minimum amount of shares of our common stock and may be commenced, suspended, resumed or terminated at any time without notice. As of December 31, 2011, we had purchased 1,531,540 shares of our common stock in the open market at an aggregate cost of $11.8 million.

On March 2, 2012, our Korean subsidiary, MagnaChip Semiconductor, Ltd., acquired certain assets and liabilities of a privately-held semiconductor company that designs and manufactures IGBT, Fast Recovery Diode and MOSFET modules.

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 43.9%, 39.7% and 50.5% of our net sales for the fiscal years ended December 31, 2011, 2010 and 2009 (on a combined basis), 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 12.0%, 7.4% and 2.2% of our net sales for the fiscal years ended December 31, 2011, 2010 and 2009 (on a combined basis), 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 278 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 43.8%, 52.6% and 46.7% of our net sales for the fiscal years ended December 31, 2011, 2010 and 2009 (on a combined basis), 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 Report. Adjusted EBITDA, as we define it, is a non-GAAP measure. We define Adjusted EBITDA as net income (loss) less income 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, (iv) restructuring and impairment charges, (v) other restructuring charges, (vi) reorganization items, net, (vii) the increase in cost of sales resulting from the fresh-start accounting inventory step-up, (viii) equity-based compensation expense, (ix) foreign currency loss (gain), net, (x) derivative valuation loss, net, (xi) one-time incentive payments in connection with the MagnaChip Corporation IPO and (xii) loss on early extinguishment of senior notes.

We define Adjusted Net Income as net income (loss) less income 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 accounting inventory step-up, (v) equity-based compensation expense, (vi) amortization of intangibles associated with continuing operations, (vii) foreign currency loss (gain), net, (viii) derivative valuation loss, net, (ix) one-time incentive payments in connection with the MagnaChip Corporation IPO and (x) loss on early extinguishment of senior notes.

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

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

- for planning purposes, including the preparation of our annual operating budget;
- to evaluate the effectiveness of our enterprise level business strategies;
- in communications with our board of directors concerning our consolidated financial performance; and

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

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

- we use Adjusted Net Income in communications with our board of directors concerning our consolidated financial performance;
- we believe that Adjusted Net Income is an enterprise level performance measure commonly reported and widely used by analysts and investors in our industry; and
- we anticipate that our investor and analyst presentations after we are public will include Adjusted Net Income.

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

Our Adjusted EBITDA and Adjusted Net Income for the year ended December 31, 2011 were $142.5 million and $66.4 million, respectively. Our Adjusted EBITDA and Adjusted Net Income for the year ended December 31, 2010 were $157.9 million and $89.2 million, respectively. Our Adjusted EBITDA and Adjusted Net Income for the combined twelve-month period ended December 31, 2009 were $98.7 million and $22.6 million, respectively

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 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 the disposal of waste materials and, to a limited extent in 2011, 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 years ended December 31, 2011 and 2010, our net sales to our ten largest customers represented 63% and 63% of our net sales, respectively. We have a combined production capacity of over 136,000 eight-inch equivalent semiconductor wafers per month. We believe our large-scale, cost-effective fabrication facilities enable us to rapidly adjust our production levels to meet shifts in demand by our end customers.

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

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

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

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, 2011, approximately 98.4% of our employees were eligible for severance benefits.

Depreciation Expense. We periodically evaluate the carrying values of long-lived assets, including property, plant and equipment and intangible assets, as well as the related depreciation periods. We depreciated our property, plant and equipment using the straight-line method over the estimated useful lives of our assets. Depreciation rates vary from 30-40 years on buildings to five to 12 years for certain equipment and assets. Our evaluation of carrying values is based on various analyses including cash flow and profitability projections. If our projections indicate that future undiscounted cash flows are not sufficient to recover the carrying values of the related long-lived assets, the carrying value of the assets is impaired and will be reduced, with the reduction charged to expense so that the carrying value is equal to fair value.

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

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

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

Interest Expense, Net. Our interest expense was incurred primarily under our senior notes. In April 2010, we repaid our term loan with a portion of the proceeds from our sale of $250.0 million in aggregate principal amount of 10.500% senior notes due 2018. We repurchased $35.0 million and $11.3 million of such senior notes in May and September 2011, respectively.

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

From time to time, we may engage in exchange rate hedging activities in an effort to mitigate the impact of exchange rate fluctuations. Our Korean subsidiary enters into foreign currency option, forward and zero cost collar contracts in order to mitigate a portion of the impact of U.S. dollar-Korean won exchange rate fluctuations on our operating results. These foreign currency option, forward and zero cost collar contracts typically require us to sell specified notional amounts in U.S. dollars and provide us the option to sell specified notional amounts in U.S. dollars during successive months to our counterparty in exchange for Korean won at specified exchange rates. Obligations under these foreign currency option, forward and zero cost collar contracts must be cash collateralized if our exposure exceeds certain specified thresholds. These option, forward and zero cost collar contracts may be terminated by the counterparty in a number of circumstances, including if our long-term debt rating falls below B-/B3 or if our total cash and cash equivalents is less than $30.0 million at the end of a fiscal quarter. We cannot assure you that any hedging technique we implement will be effective. If our hedging activities are not effective, changes in currency exchange rates may have a more significant impact on our results of operations.

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

Income Taxes. We record our income taxes in each of the tax jurisdictions in which we operate. This process involves using an asset and liability approach whereby deferred tax assets and liabilities are recorded for differences in the financial reporting bases and tax bases of our assets and liabilities. We exercise significant management judgment in determining our provision for income taxes, deferred tax assets and liabilities. We assess whether it is more likely than not that the deferred tax assets existing at the period-end will be realized in future periods. In such assessment, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent results of operations. In the event, we were to determine that it would be able to realize the deferred income tax assets in the future in excess of their net recorded amount, we would adjust the valuation allowance, which would reduce the provision for income taxes. 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.

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

Capital Expenditures. We invest in manufacturing equipment, software design tools and other tangible and intangible assets for capacity expansion and technology improvement. Capacity expansions and technology improvements typically occur in anticipation of 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. Net sales for the All other category primarily relate to certain business activities that do not constitute operating or reportable segments.

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Results of Operations

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

	Successor Company						Predecessor Company	
	Year Ended December 31, 2011		Year Ended December 31, 2010		Two-Month Period Ended December 31, 2009		Ten-Month Period Ended October 25, 2009	
	Amount	% of net sales	Amount	% of net sales	Amount	% of net sales	Amount	% of net sales
	(In millions)							
Consolidated statements of operations data:								
Net sales	$ 772.8	100.0%	$ 770.4	100.0%	$ 111.1	100.0%	$ 449.0	100.0%
Cost of sales	538.5	69.7	526.8	68.4	90.4	81.4	311.1	69.3
Gross profit	234.3	30.3	243.6	31.6	20.7	18.6	137.8	30.7
Selling, general and administrative expenses	68.4	8.8	66.6	8.6	14.5	13.1	56.3	12.5
Research and development expenses	76.8	9.9	83.5	10.8	14.7	13.3	56.1	12.5
Restructuring and impairment charges	4.1	0.5	2.0	0.3			0.4	0.1
Special expense for IPO incentive	12.1	1.6						
Operating income (loss) from continuing operations	72.9	9.4	91.4	11.9	(8.6)	(7.7)	25.0	5.6
Interest expense, net	(25.0)	(3.2)	(22.9)	(3.0)	(1.3)	(1.1)	(31.2)	(6.9)
Foreign currency gain (loss), net	(11.6)	(1.5)	14.7	1.9	9.3	8.4	43.4	9.7
Reorganization items, net							804.6	179.2
Loss on early extinguishment of senior notes	(5.5)	(0.7)						
Others	(1.0)	(0.1)	(0.7)	(0.1)				
	(43.1)	(5.6)	(8.9)	(1.2)	8.1	7.3	816.8	181.9
Income (loss) from continuing operations before income taxes	29.8	3.9	82.5	10.7	(0.5)	(0.5)	841.8	187.5
Income tax expenses	8.0	1.0	8.4	1.1	1.9	1.8	7.3	1.6
Income (loss) from continuing operations	21.8	2.8	74.1	9.6	(2.5)	(2.2)	834.5	185.9
Income from discontinued operations, net of taxes					0.5	0.5	6.6	1.5
Net income (loss)	$ 21.8	2.8%	$ 74.1	9.6%	$ (2.0)	(1.8)%	$ 841.1	187.3%
Net Sales:								
Display Solutions	$ 339.0	43.9%	$ 305.9	39.7%	$ 51.0	46.0%	$ 231.9	51.6%
Power Solutions	92.5	12.0	57.3	7.4	4.7	4.3	7.6	1.7

Semiconductor Manufacturing Services	338.3	43.8	405.2	52.6	54.8	49.3	206.7	46.0
All other	3.0	0.4	2.1	0.3	0.5	0.5	2.8	0.6
	$ 772.8	100.0%	$ 770.4	100.0%	$ 111.1	100.0%	$ 449.0	100.0%

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Results of Operations Comparison of Years Ended December 31, 2011 and 2010

The following table sets forth consolidated results of operations for the year ended December 31, 2011 and 2010:

	Successor Company				
	Year Ended December 31, 2011		Year Ended December 31, 2010		
	Amount	% of Net Sales	Amount (In millions)	% of Net Sales	Change Amount
Net sales	$ 772.8	100.0%	$ 770.4	100.0%	$ 2.4
Cost of sales	538.5	69.7	526.8	68.4	11.7
Gross profit	234.3	30.3	243.6	31.6	(9.3)
Selling, general and administrative expenses	68.4	8.8	66.6	8.6	1.8
Research and development expenses	76.8	9.9	83.5	10.8	(6.7)
Restructuring and impairment charges	4.1	0.5	2.0	0.3	2.1
Special expense for IPO incentive	12.1	1.6			12.1
Operating income (loss) from continuing operations	72.9	9.4	91.4	11.9	(18.6)
Interest expense, net	(25.0)	(3.2)	(22.9)	(3.0)	(2.1)
Foreign currency gain (loss), net	(11.6)	(1.5)	14.7	1.9	(26.3)
Loss on early extinguishment of senior notes	(5.5)	(0.7)			(5.5)
Others	(1.0)	(0.1)	(0.7)	(0.1)	(0.3)
	(43.1)	(5.6)	(8.9)	(1.2)	(34.2)
Income (loss) from continuing operations before income taxes	29.8	3.9	82.5	10.7	(52.8)
Income tax expenses	8.0	1.0	8.4	1.1	(0.4)
Net income	$ 21.8	2.8%	$ 74.1	9.6%	$ (52.3)

Net Sales

	Successor Company				
	Year Ended December 31, 2011		Year Ended December 31, 2010		
	Amount	% of Net Sales	Amount (In millions)	% of Net Sales	Change Amount
Display Solutions	$ 339.0	43.9%	$ 305.9	39.7%	$ 33.1
Power Solutions	92.5	12.0	57.3	7.4	35.2
Semiconductor Manufacturing Services	338.3	43.8	405.2	52.6	(66.9)
All other	3.0	0.3	2.1	0.3	1.0
	$ 772.8	100.0%	$ 770.4	100.0%	$ 2.4

Net sales were $772.8 million for the year ended December 31, 2011, a $2.4 million, or 0.3%, increase compared to $770.4 million for the year ended December 31, 2010.

Display Solutions. Net sales from our Display Solutions segment were $339.0 million for the year ended December 31, 2011, a $33.1 million, or 10.8%, increase compared to $305.9 million for the year ended December 31, 2010. The increase was primarily due to a 4.6% increase in product sales volume related to higher demand for certain consumer electronics products such as digital televisions, PCs and smart phones and a 4.5% increase in average selling prices due to an improved product mix.

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Power Solutions. Net sales from our Power Solutions segment were $92.5 million for the year ended December 31, 2011, a $35.2 million, or 61.6%, increase compared to $57.3 million for the year ended December 31, 2010. The increase was primarily due to a 56.5% increase in sales volume and a 3.3 % increase in average selling prices driven by an improved product mix and higher demand for MOSFET products from existing and new customers as we expanded this business.

Semiconductor Manufacturing Services. Net sales from our Semiconductor Manufacturing Services segment were $338.3 million for the year ended December 31, 2011, a $66.9 million, or 16.5%, decrease compared to $405.2 million for the year ended December 31, 2010. This decrease was primarily due to a 23.3% decrease in sales volume of eight-inch equivalent wafers driven by weak market demand, which was partially offset by a 7.0% increase in average selling prices due to an improved product mix of advanced process geometry.

All Other. Net sales from All other were $3.0 million for the year ended December 31, 2011, a $1.0 million, or 47.3%, increase compared to $2.1 million for the year ended December 31, 2010. This increase resulted from the disposal of waste materials.

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 year ended December 31, 2011, and 2010:

	Successor Company				
	Year Ended December 31, 2011		Year Ended December 31, 2010		
	Amount	% of Net Sales	Amount	% of Net Sales	Change Amount
			(In millions)		
Korea	$ 397.3	51.4%	$ 379.1	49.2%	$ 18.2
Asia Pacific	218.2	28.2	222.1	28.8	(3.9)
Japan	58.2	7.5	57.4	7.5	0.8
North America	81.7	10.6	95.2	12.4	(13.5)
Europe	14.0	1.8	14.9	1.9	(0.9)
Africa	3.4	0.5	1.7	0.2	1.7
	$ 772.8	100.0%	$ 770.4	100.0%	$ 2.4

Net sales in Korea for the year ended December 31, 2011 increased from $379.1 million to $397.3 million compared to the year ended December 31, 2010, or by $18.2 million, or 4.8%, primarily due to increased demand in the market for Display Solution products. Net sales in North America for the year ended December 31, 2011 decreased from $95.2 million to $81.7 million compared to the year ended December 31, 2010, or by $13.5 million, or 14.1%, primarily due to decreased demand for Semiconductor Manufacturing Services products.

Gross Profit

Total gross profit was $234.3 million for the year ended December 31, 2011 compared to $243.6 million for the year ended December 31, 2010, a $9.3 million, or 3.8%, decrease. Gross profit as a percentage of net sales for the year ended December 31, 2011 decreased to 30.3% compared to 31.6% for the year ended December 31, 2010. This decrease in gross margin was primarily attributable to an increase in unit cost of sales resulting from lower utilization of manufacturing facilities in our Semiconductor Manufacturing Services segment. Cost of sales for the year ended December 31, 2011 increased by $11.7 million compared to the year ended December 31, 2010. The increase in cost of sales was primarily due to a $13.2 million increase in subcontractor costs due to the increased sales volume in our Power Solutions segment and Display Solutions segment, which was partially offset by a $5.2 million decrease in material costs due to lower sales volume driven by our Semiconductor Manufacturing Services segment.

Operating Expenses

Selling, General and Administrative Expenses. Selling, general, and administrative expenses were $68.4 million, or 8.8% of net sales for the year ended December 31, 2011, compared to $66.6 million, or 8.6% of net sales for the year ended December 31, 2010.

Research and Development Expenses. Research and development expenses for the year ended December 31, 2011 were $76.8 million, a decrease of $6.7 million, or 8.1%, from $83.5 million for the year ended December 31, 2010. This decrease was primarily due to a $8.5 million decrease in depreciation and amortization expenses due to fully amortized existing technology in 2010. Research and development expenses as a percentage of net sales were 9.9% in the year ended December 31, 2011, compared to 10.8% in the year ended December 31, 2010.

Restructuring and Impairment Charges. Restructuring and impairment charges increased by $2.1 million in the year ended December 31, 2011 compared to the year ended December 31, 2010. Restructuring charges of $1.6 million recorded for the year ended December 31, 2011 were related to the closure of our research and development center in Japan and sales subsidiary in U.K. Impairment charges of $2.5 million for the year ended December 31, 2011 consisted of $2.0 million from twelve abandoned in-process research and development projects and one dropped existing technology, and $0.5 million from one abandoned system project. Impairment charges of $2.0 million recorded in the year ended December 31, 2010 were related to impairment of in-process research and development projects, which were accounted for as indefinite-lived intangible assets as part of the application of fresh-start accounting.

Special expense for the MagnaChip Corporation IPO Incentive. We previously stated our intention to use part of the net proceeds from the MagnaChip Corporation IPO to make incentive payments to all employees, excluding management. The payment of such employee incentives was contingent upon the consummation of the MagnaChip Corporation IPO. We paid the MagnaChip Corporation IPO incentives in March 2011.

Operating Income

As a result of the foregoing, operating income decreased by $18.6 million, or 20.2%, in the year ended December 31, 2011 compared to the year ended December 31, 2010. As discussed above, the decrease in operating income primarily resulted from the payment of a $12.1 million incentive in connection with the MagnaChip Corporation IPO, a $2.1 million increase in restructuring and impairment charges, a $9.3 million decrease in gross profit and a $1.8 million increase in selling, general and administrative expenses, which were partially offset by a $6.7 million decrease in research and development expenses.

Other Income (Expense)

Interest Expense, Net. Net interest expense was $25.0 million during the year ended December 31, 2011, an increase of $2.1 million compared to $22.9 million for the year ended December 31, 2010. Interest expense for the year ended December 31, 2011 was incurred primarily under our $250.0 million principal amount senior notes issued on April 9, 2010. We repurchased $35.0 million and $11.3 million out of $250.0 million aggregate principal amount of our senior notes on May 16 and September 19, 2011, respectively. Interest expense for the year ended December 31, 2010 was incurred under our $250.0 million principal amount senior notes issued on April 9, 2010 and partially incurred under our $61.6 million principal amount of new term loan, which was fully repaid on April 9, 2010.

Foreign Currency Gain (Loss), Net. Net foreign currency loss for the year ended December 31, 2011 was $11.6 million, compared to net foreign currency gain of $14.7 million for the year December 31, 2010. A substantial portion of our net foreign currency gain or loss is non-cash translation gain or loss associated with intercompany balances at our Korean subsidiary and is affected by changes in the exchange rate between the Korean won and the U.S. dollar. Foreign currency translation gain from intercompany balances was included in

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determining our consolidated net income since the intercompany balances were not considered long-term investments in nature because management intended to settle these intercompany balances at their respective maturity dates. The Korean won to U.S. dollar exchange rates were 1,153.3:1 and 1,138.9:1 using the first base rate as of December 31, 2011 and December 31, 2010, respectively, as quoted by the Korea Exchange Bank.

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

Others. Others were comprised of gains and losses on valuation of derivatives which were designated as hedging instruments. Net loss on valuation of derivatives for the year ended December 31, 2011 represents either hedge ineffectiveness or components of changes in fair value of derivatives excluded from the assessments of hedge effectiveness.

Income Tax Expenses. Income tax expenses for the year ended December 31, 2011 were $8.0 million, compared to income tax expenses of $8.4 million for the year ended December 31, 2010. Income tax expenses for the year ended December 31, 2011 were comprised of $0.2 million of current income tax expenses, net incurred in various jurisdictions in which our overseas subsidiaries are located, $5.9 million of withholding taxes mostly accrued on intercompany interest payments, which would be utilized as foreign tax credits, but due to the uncertainty of utilization, full valuation allowance was recognized, $0.6 million of additional recognition of liabilities for uncertain tax positions and a $1.3 million income tax effect from the change of deferred tax assets.

Net Income (Loss)

As a result of the foregoing, net income decreased by $52.3 million in the year ended December 31, 2011 compared to the year ended December 31, 2010. As discussed above, the decrease in net income was primarily due to a $26.3 million decrease in foreign currency gain, a $18.6 million decrease in operating income, a $2.1 million increase in interest expenses and a $5.5 million of loss on early extinguishment of senior notes, which were partially offset by a $0.4 million decrease in income tax expenses.

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

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

	Successor Company				Predecessor Company		
	Year Ended December 31, 2010		Two-Month Period Ended December 31, 2009		Ten-Month Period Ended October 25, 2009		
	Amount	% of Net Sales	Amount	% of Net Sales	Amount	% of Net Sales	Change Amount
			(In millions)				
Net sales	$ 770.4	100.0%	$ 111.1	100.0%	$ 449.0	100.0%	$ 210.3
Cost of sales	526.8	68.4	90.4	81.4	311.1	69.3	125.3
Gross profit	243.6	31.6	20.7	18.6	137.8	30.7	85.0
Selling, general and administrative expenses	66.6	8.6	14.5	13.1	56.3	12.5	(4.2)
Research and development expenses	83.5	10.8	14.7	13.3	56.1	12.5	12.6
Restructuring and impairment charges	2.0	0.3			0.4	0.1	1.6
Operating income (loss) from continuing operations	91.4	11.9	(8.6)	(7.7)	25.0	5.6	75.0
Interest expense, net	(22.9)	(3.0)	(1.3)	(1.1)	(31.2)	(6.9)	9.5
Foreign currency gain, net	14.7	1.9	9.3	8.4	43.4	9.7	(38.1)
Reorganization items, net					804.6	179.2	(804.6)
Others	(0.7)	(0.1)					(0.7)
	(8.9)	(1.2)	8.1	7.3	816.8	181.9	(833.8)
Income (loss) from continuing operations before income taxes	82.5	10.7	(0.5)	(0.5)	841.8	187.5	(758.8)
Income tax expenses	8.4	1.1	1.9	1.8	7.3	1.6	(0.9)
Income (loss) from continuing operations	74.1	9.6	(2.5)	(2.2)	834.5	185.9	(757.9)
Income from discontinued operations, net of taxes			0.5	0.5	6.6	1.5	(7.1)
Net income (loss)	$ 74.1	9.6%	$ (2.0)	(1.8)%	$ 841.1	187.3%	$ (765.0)

Net Sales

	Successor Company	Predecessor Company

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

Net sales were $770.4 million for the year ended December 31, 2010, a $210.3 million, or 37.6 %, increase compared to $560.1 million for the combined twelve-month period ended December 31, 2009, or $111.1 million for the two-month period ended December 31, 2009 and $449.0 million for the ten-month period ended

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October 25, 2009. This increase was primarily due to increases in our product sales volume driven by overall business recovery in the market and an improved product mix, which were partially offset by a decrease in average selling prices.

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

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

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

All Other. Net sales from All other were $2.1 million for the year ended December 31, 2010, a $1.3 million, or 38.5%, decrease compared to $3.3 million for the combined twelve-month period ended December 31, 2009, or $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. 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 year ended December 31, 2010, the two-month period ended December 31, 2009 and the ten-month period ended October 25, 2009:

	Successor Company				Predecessor Company		
	Year Ended December 31, 2010		Two-Month Period Ended December 31, 2009		Ten-Month Period Ended October 25, 2009		
	Amount	% of Net Sales	Amount	% of Net Sales	Amount	% of Net Sales	Change Amount
				(In millions)			
Korea	$ 379.1	49.2%	$ 62.2	56.0%	$ 244.3	54.4%	$ 72.5
Asia Pacific	222.1	28.8	25.6	23.0	116.9	26.0	79.6
Japan	57.4	7.5	6.5	5.8	31.6	7.0	19.3
North America	95.2	12.4	14.9	13.4	48.5	10.8	31.8
Europe	14.9	1.9	1.9	1.7	7.7	1.7	5.4
Africa	1.7	0.2					1.7
	$ 770.4	100.0%	$ 111.1	100.0%	$ 449.0	100.0%	$ 210.3

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Net sales in Korea for the year ended December 31, 2010 increased compared to the combined twelve-month period ended December 31, 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 year ended December 31, 2010 increased compared to the combined twelve-month period ended December 31, 2009, primarily due to the overall business recovery in the market and increased demand for Semiconductor Manufacturing Services and Power Solutions products.

Gross Profit

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

Operating Expenses

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

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

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

$0.4 million of impairment charges were recognized as a result of our annual impairment test of in-process research and development. Restructuring charges of $0.4 million recorded in the combined twelve-month period ended December 31, 2009 were related to the closure of our research and development facilities in Japan.

Operating Income from Continuing Operations

As a result of the foregoing, operating income from continuing operations increased by $75.0 million, or 458.5%, in the year ended December 31, 2010 compared to the combined twelve-month period ended December 31, 2009. As discussed above, the increase in operating income from continuing operations was primarily a result of the 37.6% increase in net sales over the prior year, partially offset by a $12.6 million, or 17.8%, increase in research and development expenses during the same year. The increase in net sales for the year ended December 31, 2010 is mainly due to increased sales volume driven by overall business recovery in the market and an improved product mix, primarily in connection with our Semiconductor Manufacturing Services segment.

Other Income (Expense)

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

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

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

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

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Income from Discontinued Operations, Net of Taxes

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

Net Income (Loss)

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

Additional Business Metrics Evaluated by Management

Adjusted EBITDA and Adjusted Net Income

We define Adjusted EBITDA as net income (loss) less income 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, (iv) restructuring and impairment charges, (v) other restructuring charges, (vi) reorganization items, net, (vii) the increase in cost of sales resulting from the fresh-start accounting inventory step-up, (viii) equity-based compensation expense, (ix) foreign currency loss (gain), net, (x) derivative valuation loss, net, (xi) one-time incentive payments in connection with the MagnaChip Corporation IPO and (xii) loss on early extinguishment of senior notes. See the footnotes to the table below for further information regarding these items. We present Adjusted EBITDA as a supplemental measure of our performance because:

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

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

- for planning purposes, including the preparation of our annual operating budget;
- to evaluate the effectiveness of our enterprise level business strategies;
- in communications with our board of directors concerning our consolidated financial performance; and

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

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

	Successor			Predecessor
	Year Ended December 31, 2011	Year Ended December 31, 2010	Two-Month Period Ended December 31, 2009	Ten- Month Period Ended October 25, 2009
			(In millions)	
Net income (loss)	$ 21.8	$ 74.1	$ (2.0)	$ 841.1
Less: Income from discontinued operations, net of taxes			0.5	6.6
Income (loss) from continuing operations	21.8	74.1	(2.5)	834.5
Adjustments:				
Depreciation and amortization associated with continuing operations	51.2	58.4	11.2	37.7
Interest expense, net	25.0	22.9	1.3	31.2
Income tax expenses	8.0	8.4	1.9	7.3
Restructuring and impairment charges(a)	4.1	2.0		0.4
Other restructuring charges(b)				13.3
Reorganization items, net(c)				(804.6)
Inventory step-up(d)		0.9	17.2	
Equity-based compensation expense(e)	2.2	5.2	2.2	0.2
Foreign currency loss (gain), net(f)	11.6	(14.7)	(9.3)	(43.4)
Derivative valuation loss, net(g)	1.0	0.7		
Special expense for IPO incentive(h)	12.1			
Loss on early extinguishment of senior notes(i)	5.5			
Adjusted EBITDA	$ 142.5	$ 157.9	$ 22.1	$ 76.6

(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 2011, restructuring charges of $1.6 million related to the closure of our research and development center in Japan and sales subsidiary in the U.K. and impairment charges related to $2.0 million from twelve abandoned in-process research and development projects and one dropped existing technology, $0.4 million from one abandoned system project and $0.1 million from impairment of tangible and intangible assets, (ii) for 2010, impairment charges of $2.0 million recorded, of which $1.6 million of impairment charges were recognized for abandoned in-process research and development projects and $0.4 million of impairment charges were recognized as a result of an annual impairment test of in-process research and development, accounted for as indefinite-lived intangible assets as part of the application of fresh-start accounting and (iii) for 2009, termination benefits and other related costs, for the ten-month period ended October 25, 2009 in connection with the closure of one of our research and development facilities in Japan. We do not believe these restructuring and impairment charges are indicative of our core ongoing operating performance because we do not anticipate similar facility closures and market driven events in our ongoing operations, although we cannot guarantee that similar events will not occur in the future.

(b) This adjustment relates to certain restructuring charges that are not included in the restructuring and impairment charges line item on our consolidated statements of operations. These items are included in selling, general and administrative expenses in our consolidated statements of operations and comprised of a charge of $13.3 million for restructuring-related professional fees and related expenses for 2009. We do not believe these other restructuring charges are indicative of our core ongoing operating performance because these charges were related, in significant part, to actions we took in response to the impacts on our business resulting from the global economic recession that persisted through 2008 and 2009. We cannot guarantee that similar charges will not be incurred in the future.

(c) This adjustment eliminates the impact of largely non-cash reorganization income and expense items directly associated with our reorganization proceedings from our ongoing operations including, among others, professional fees, the revaluation of assets, the effects of the Chapter 11 reorganization plan and fresh-start accounting principles and the write-off of debt issuance costs. Included in reorganization items, net for the ten-month period ended October 25, 2009 was our predecessor s gain recognized from the effects of our reorganization proceedings. The gain results from the difference between our predecessor s carrying value of remaining pre-petition liabilities subject to compromise and the amounts to be distributed pursuant to the reorganization proceedings. The gain from the effects of the reorganization proceedings and the application of fresh-start accounting principles is comprised of the discharge of liabilities subject to compromise, net of the issuance of new common units and new warrants and the accrual of amounts to be settled in cash. For details regarding this adjustment, see Note 6 to the consolidated financial statements of MagnaChip Semiconductor Corporation included elsewhere in this report. We do not believe these items are indicative of our core ongoing operating performance because they were incurred as a result of our Chapter 11 reorganization.

(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 impact of non-cash foreign currency translation associated with intercompany debt obligations and foreign currency denominated receivables and payables, as well as the cash impact of foreign currency transaction gains or losses on collection of such receivables and payment of such payables. Although we expect to incur foreign currency translation gains or losses in the future, we believe that analysts and investors will find it helpful to review our operating performance without the effects of these primarily non-cash gains or losses, as supplemental information.

(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.

(h) This adjustment eliminates the one-time impact of incentive payments to all employees excluding management in connection with the MagnaChip Corporation IPO.

(i) This adjustment eliminates the impact of loss on repurchase of $46.3 million of our senior notes for the year ended December 31, 2011.

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

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

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

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

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

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

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

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

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

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

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

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

Adjusted Net Income is not a measure defined in accordance with GAAP and should not be construed as an alternative to income from continuing operations, cash flows from operating activities or net income (loss), as determined in accordance with GAAP. We encourage you to evaluate each adjustment and the reasons we consider them appropriate. Other companies in our industry may calculate Adjusted Net Income differently than we do, limiting its usefulness as a comparative measure. In addition, in evaluating Adjusted Net Income, you should be aware that in the future we may incur expenses similar to the adjustments in this presentation. We define Adjusted Net Income as net income (loss) less income 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 accounting inventory step-up, (v) equity-based compensation expense, (vi) amortization of intangibles associated with continuing operations, (vii) foreign currency loss (gain), net, (viii) derivative valuation loss, net, (ix) one-time incentive payments in connection with the MagnaChip Corporation IPO and (x) loss on early extinguishment of senior notes.

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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			Predecessor
	Year Ended December 31, 2011	Year Ended December 31, 2010	Two-Month Period Ended December 31, 2009	Ten-Month Period Ended October 25, 2009
	(In millions)			
Net income (loss)	$ 21.8	$ 74.1	$ (2.0)	$ 841.1
Less: Income from discontinued operations, net of taxes			0.5	6.6
Income (loss) from continuing operations	21.8	74.1	(2.5)	834.5
Adjustments:				
Restructuring and impairment charges(a)	4.1	2.0		0.4
Other restructuring charges(b)				13.3
Reorganization items, net(c)				(804.6)
Inventory step-up(d)		0.9	17.2	
Equity-based compensation expense(e)	2.2	5.2	2.2	0.2
Amortization of intangibles associated with continuing operations(f)	8.1	21.0	5.6	8.8
Foreign currency loss (gain), net(g)	11.6	(14.7)	(9.3)	(43.4)
Derivative valuation loss, net(h)	1.0	0.7		
Special expense for IPO incentive(i)	12.1			
Loss on early extinguishment of senior notes(j)	5.5			
Adjusted Net Income	$ 66.4	$ 89.2	$ 13.3	$ 9.3

(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 2011, restructuring charges of $1.6 million related to the closure of our research and development center in Japan and sales subsidiary in the U.K. and impairment charges related to $2.0 million from twelve abandoned in-process research and development projects and one dropped existing technology, $0.4 million from one abandoned system project and $0.1 million from impairment of tangible and intangible assets, (ii) for 2010, impairment charges of $2.0 million recorded, of which $1.6 million of impairment charges were recognized for abandoned in-process research and development projects and $0.4 million of impairment charges were recognized as a result of an annual impairment test of in-process research and development, accounted for as indefinite-lived intangible assets as part of the application of fresh-start accounting and (iii) for 2009, termination benefits and other related costs, for the ten-month period ended October 25, 2009 in connection with the closure of one of our research and development facilities in Japan. We do not believe these restructuring and impairment charges are indicative of our core ongoing operating performance because we do not anticipate similar facility closures and market driven events in our ongoing operations, although we cannot guarantee that similar events will not occur in the future.

(b) This adjustment relates to certain restructuring charges that are not included in the restructuring and impairment charges line item on our consolidated statements of operations. These items are included in selling, general and administrative expenses in our consolidated statements of operations and comprised of a charge of $13.3 million for restructuring-related professional fees and related expenses for 2009. We do not believe these other restructuring charges are indicative of our core ongoing operating performance because these charges were related, in significant part, to actions we took in response to the impacts on our business resulting from the global economic recession that persisted through 2008 and 2009. We cannot guarantee that similar charges will not be incurred in the future.

(c) This adjustment eliminates the impact of largely non-cash reorganization income and expense items directly associated with our reorganization proceedings from our ongoing operations including, among others, professional fees, the revaluation of assets, the effects of the Chapter 11 reorganization plan and fresh-start accounting principles and the write-off of debt issuance costs. Included in reorganization items, net for the ten-month period ended October 25, 2009 was our predecessor s gain recognized from the effects of our reorganization proceedings. The gain results from the difference between our predecessor s carrying value of remaining pre-petition liabilities subject to compromise and the amounts to be distributed pursuant to the reorganization proceedings. The gain from the effects of the reorganization proceedings and the application of fresh-start accounting principles is comprised of the discharge of liabilities subject to compromise, net of the issuance of new common units and new warrants and the accrual of amounts to be settled in cash. For details regarding this adjustment, see note 6 to the consolidated financial statements of MagnaChip Semiconductor Corporation included elsewhere in this report. We do not believe these items are indicative of our core ongoing operating performance because they were incurred as a result of our reorganization proceedings.

(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. We do not believe these non-cash amortization expenses for intangibles are indicative of our core ongoing operating performance because the assets would not have been capitalized on our balance sheet but for the application of purchase accounting or fresh-start accounting, as applicable.

(g) This adjustment eliminates the impact of non-cash foreign currency translation associated with intercompany debt obligations and foreign currency denominated receivables and payables, as well as the cash impact of foreign currency transaction gains or losses on collection of such receivables and payment of such payables. Although we expect to incur foreign currency translation gains or losses in the future, we believe that analysts and investors will find it helpful to review our operating performance without the effects of these primarily non-cash gains or losses, as supplemental information.

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

(i) This adjustment eliminates the one-time impact of incentive payments to all employees excluding management in connection with the MagnaChip Corporation IPO.

(j) This adjustment eliminates the impact of loss on repurchase of $46.3 million of our senior notes for the year ended December 31, 2011.

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

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

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

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

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

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

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

Periodic Results of Operations

The following tables set forth unaudited selected consolidated financial data for each of the quarters in the eight-quarter period ended December 31, 2011. The information for each of these periods has been prepared on the same basis as the audited financial statements included elsewhere in this Report 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 Report. These operating results are not necessarily indicative of our operating results for any future period.

	Successor (1) Three months ended							
	December 31, 2011*	**September 30, 2011***	**June 30, 2011***	**March 31, 2011***	**December 31, 2010***	**September 30, 2010***	**June 30, 2010***	**March 31, 2010***
	(In millions)							
Statements of Operations Data:								
Net sales	$ 180.8	$ 200.4	$ 203.7	$ 187.9	$ 186.8	$ 209.4	$ 194.7	$ 179.5
Cost of sales	129.3	140.3	137.5	131.4	126.4	140.1	130.2	130.1
Gross profit	51.5	60.1	66.2	56.5	60.4	69.3	64.5	49.4
Selling, general and administrative expenses	17.5	17.9	17.5	15.4	16.6	16.2	16.0	17.9
Research and development expenses	18.7	19.0	20.6	18.5	19.3	23.1	20.5	20.5
Restructuring and impairment charges		1.6	2.5		1.0	0.4	0.3	0.3
Special expense for IPO incentive				12.1				
Operating income	15.3	21.6	25.6	10.4	23.5	29.6	27.8	10.6
Interest expense, net	(5.6)	(5.9)	(6.4)	(7.1)	(7.0)	(7.3)	(6.6)	(2.0)
Foreign currency gain (loss), net	16.8	(68.1)	18.2	21.4		41.4	(48.3)	21.6
Loss on early extinguishment of senior notes		(1.4)	(4.1)					
Others	(0.9)	(0.5)	0.2	0.2		0.3	(1.0)	(0.1)
	10.3	(75.8)	8.0	14.4	(7.0)	34.4	(55.8)	19.5
Income (loss) before income taxes	25.6	(54.2)	33.6	24.8	16.5	64.0	(28.0)	30.1
Income tax expenses (benefits)	1.9	1.8	2.0	2.4	4.2	2.5	2.7	(1.0)
Net income (loss)	$ 23.7	$ (56.0)	$ 31.6	$ 22.5	$ 12.3	$ 61.5	$ (30.7)	$ 31.1
Earning (loss) per share/unit								
Basic	$ 0.61	$ (1.43)	$ 0.81	$ 0.59	$ 0.32	$ 1.63	$ (0.81)	$ 0.82
Diluted	$ 0.61	$ (1.43)	$ 0.78	$ 0.57	$ 0.31	$ 1.57	$ (0.81)	$ 0.81

Supplemental Data (unaudited):								
Adjusted EBITDA(2)	$ 24.5	$ 36.8	$ 44.1	$ 37.1	$ 39.7	$ 45.7	$ 43.8	$ 28.7
Adjusted Net Income(3)	10.1	18.2	22.4	15.7	17.4	26.2	25.7	19.9

* Derived from our unaudited interim consolidated financial statements.

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(1) As of October 25, 2009, the fresh-start adoption date, we adopted fresh-start accounting for our consolidated financial statements. Because of the emergence from reorganization proceedings and adoption of fresh-start accounting, the historical financial information for periods after October 25, 2009 is not fully comparable to periods before October 25, 2009.

(2) We define Adjusted EBITDA as net income (loss), adjusted to exclude (i) depreciation and amortization, (ii) interest expense, net, (iii) income tax expenses (benefits), (iv) restructuring and impairment charges, (v) the increase in cost of sales resulting from the fresh-start accounting inventory step-up, (vi) equity-based compensation expense, (vii) foreign currency loss (gain), net, (viii) derivative valuation loss (gain), net, (ix) one-time incentive payments in connection with the MagnaChip Corporation IPO and (x) loss on early extinguishment of senior notes. A reconciliation of net income (loss) to Adjusted EBITDA is as follows:

	Successor Three months ended (In millions)							
	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010
Net income (loss)	$ 23.7	$ (56.0)	$ 31.6	$ 22.5	$ 12.3	$ 61.5	$ (30.7)	$ 31.1
Adjustments:								
Depreciation and amortization	8.9	13.0	15.4	13.9	14.1	14.3	14.5	15.5
Interest expense, net	5.6	5.9	6.4	7.1	7.0	7.3	6.6	2.0
Income tax expenses (benefits)	1.9	1.8	2.0	2.4	4.2	2.5	2.7	(1.0)
Restructuring and impairment charges(a)		1.6	2.5		1.0	0.4	0.3	0.3
Inventory step-up(b)								0.9
Equity-based compensation expense(c)	0.3	0.6	0.6	0.6	1.2	1.3	1.3	1.5
Foreign currency loss (gain), net(d)	(16.8)	68.1	(18.2)	(21.4)		(41.4)	48.3	(21.6)
Derivative valuation loss (gain), net(e)	0.9	0.5	(0.2)	(0.2)		(0.3)	1.0	0.1
Special expense for IPO incentive(f)				12.1				
Loss on early extinguishment of senior notes(g)		1.4	4.1					
Adjusted EBITDA	$ 24.5	$ 36.8	$ 44.1	$ 37.1	$ 39.7	$ 45.7	$ 43.8	$ 28.7

(a) This adjustment is comprised of all items included in the restructuring and impairment charges line item on our consolidated statements of operations, and eliminates the impact of restructuring and impairment charges related to (i) for 2011, restructuring charges of $1.6 million related to the closure of our research and development center in Japan and sales subsidiary in the U.K. and impairment charges related to $2.0 million from twelve abandoned in-process research and development projects and one dropped existing technology, $0.4 million from one abandoned system project and $0.1 million from impairment of tangible and intangible assets, and (ii) for 2010, impairment charges of an aggregate of $2.0 million recorded, of which an aggregate of $1.6 million of impairment charges were recognized for abandoned in-process research and development projects and an aggregate of $0.4 million of impairment charges were recognized as a result of an annual impairment test of in-process research and development, accounted for as indefinite-lived intangible assets as part of the application of fresh-start accounting.

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(b) 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.

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

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

(e) This adjustment eliminates the impact of gain or loss recognized in income on derivatives, which represents hedge ineffectiveness or derivatives value changes excluded from the risk being hedged. We enter into derivative transactions to mitigate foreign exchange risks. As our derivative transactions are limited to a certain portion of our expected cash flows denominated in 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.

(f) This adjustment eliminates the one-time impact of incentive payments to all employees excluding management in connection with the MagnaChip Corporation IPO.

(g) This adjustment eliminates the impact of loss on repurchase of $46.3 million of our senior notes for the year ended December 31, 2011.

(3) We define Adjusted Net Income as net income (loss), excluding (i) restructuring and impairment charges, (ii) the increase in cost of sales resulting from the fresh-start accounting inventory step-up, (iii) equity-based compensation expense, (iv) amortization of intangibles, (v) foreign currency loss (gain), net, (vi) derivative valuation loss (gain), net, (vii) one-time incentive payments in connection with the MagnaChip Corporation IPO and (viii) loss on early extinguishment of senior notes. The following table summarizes the adjustments to net income (loss) that we make in order to calculate Adjusted Net Income for the periods indicated:

	Successor Three months ended							
	December 31, 2011	September 30, 2011	June 30, 2011	March 31, 2011	December 31, 2010	September 30, 2010	June 30, 2010	March 31, 2010
	(In millions)							
Net income (loss)	$ 23.7	$ (56.0)	$ 31.6	$ 22.5	$ 12.3	$ 61.5	$ (30.7)	$ 31.1
Adjustments:								
Restructuring and impairment charges(a)		1.6	2.5		1.0	0.4	0.3	0.3
Inventory step-up(b)								0.9
Equity-based compensation expense(c)	0.3	0.6	0.6	0.7	1.2	1.3	1.3	1.5
Amortization of intangibles(d)	2.0	2.1	2.1	2.0	2.9	4.7	5.7	7.7
Foreign currency loss (gain), net(e)	(16.8)	68.1	(18.2)	(21.4)		(41.4)	48.3	(21.6)
Derivative valuation loss (gain), net (f)	0.9	0.4	(0.3)	(0.2)		(0.3)	1.0	0.1
Special expense for IPO incentive(g)				12.1				
Loss on early extinguishment of senior notes(h)		1.4	4.1					
Adjusted Net Income	$ 10.1	$ 18.2	$ 22.4	$ 15.7	$ 17.4	$ 26.2	$ 25.7	$ 19.9

(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 2011, restructuring charges of $1.6 million related to the closure of our research

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and development center in Japan and sales subsidiary in the U.K. and impairment charges related to $2.0 million from twelve abandoned in-process research and development projects and one dropped existing technology, $0.4 million from one abandoned system project and $0.1 million from impairment of tangible and intangible assets, and (ii) for 2010, impairment charges of an aggregate of $2.0 million recorded, of which an aggregate of $1.6 million of impairment charges were recognized for abandoned in-process research and development projects and an aggregate of $0.4 million of impairment charges were recognized as a result of an annual impairment test of in-process research and development, accounted for as indefinite-lived intangible assets as part of the application of fresh-start accounting.

(b) 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.

(c) 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.

(d) This adjustment eliminates the non-cash impact of amortization expense for intangible assets created as a result of the acquisition accounting treatment of the Original Acquisition and other subsequent acquisitions, and from the application of fresh-start accounting in connection with the reorganization proceedings.

(e) 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.

(f) 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.

(g) This adjustment eliminates the one-time impact of incentive payments to all employees excluding management in connection with the MagnaChip Corporation IPO.

(h) This adjustment eliminates the impact of loss on repurchase of $46.3 million of our senior notes for the year ended December 31, 2011.

Our net sales for the three months ended June 30, 2010 increased by 8.5% from the three months ended March 31, 2010 due to improved product mix and increased market demand as the consumer electronics industry continued to recover from the economic slowdown. Our net sales for the three months ended September 30, 2010 increased by 7.6% from the three months ended June 30, 2010, primarily due to improved product mix and increased market demand for Semiconductor Manufacturing Services and Power Solutions products. Our net sales for the three months ended December 31, 2010 decreased by 10.8% from the three months ended September 30, 2010, primarily due to decreased market demand for Semiconductor Manufacturing Services and Display Solutions products as a result of our customers efforts to reduce their inventory levels. Our net sales for the three months ended March 31, 2011 increased by 0.6% from the three months ended December 31, 2010 due improved product mix and increased market demand for Power Solutions products. Our net sales for the three months ended June 30, 2011 increased by 8.4% from the three months ended March 31, 2011, primarily due to increased market demand for Display Solutions and Power Solutions products. Our net sales for the three months ended September 30, 2011 decreased by 1.6% from the three months ended June 30, 2011, primarily due to decreased market demand for Semiconductor Manufacturing Services. Our net sales for the three months ended December 31, 2011 decreased by 9.8% from the three months ended September 30, 2011, primarily due to decreased market demand for Semiconductor Manufacturing Services and Display Solutions products as a result of our customers efforts to reduce their inventory levels.

Gross margin increased to 33.1% in the three months ended June 30, 2010 from 27.5% in the three months ended March 31, 2010. The increase was primarily due to increased sales volume and improved utilization of our manufacturing facilities. Gross margin was 33.1% as a percent of revenue in the three months ended September 30, 2010, and remained the same as the three months ended June 30, 2010. Gross margin decreased to 32.3% in the three months ended December 31, 2010 from 33.1% in the three months ended September 30, 2010. The decrease was primarily due to decreased sales volume resulting from our customers efforts to reduce their inventory levels and lower utilization of our manufacturing facilities. Gross margin decreased to 30.1% in the three months ended March 31, 2011 from 32.3% in the three months ended December 31, 2010. The decrease was primarily due to an increase in cost of sales to a greater extent than an increase in net sales. Gross margin increased to 32.5% in the three months ended June 30, 2011 from 30.1% in the three months ended March 31, 2011. The increase was primarily due to increased sales volume in Display Solutions and Power Solutions. Gross margin decreased to 30.0% in the three months ended September 30, 2011 from 32.5% in the three months ended June 30, 2011. The decrease was primarily due to an increase in cost of sales compared to a decrease in net sales. Gross margin decreased to 28.5% in the three months ended December 31, 2011 from 30.0% in the three months ended September 30, 2011. The decrease was primarily due to decreased sales volume resulting from our customers efforts to reduce their inventory levels and lower utilization of our manufacturing facilities.

Selling, general and administrative expenses for the three months ended June 30, 2010 decreased compared to the three months ended March 31, 2010, primarily due to decreases in depreciation and amortization as amortization of certain intangible assets was completed in April 2010. Selling, general and administrative expenses remained relatively constant over the quarters ended December 31, 2010, September 30, 2010 and June 30, 2010. Selling, general and administrative expenses for the three months ended June 30, 2011 increased compared to the three months ended March 31, 2011 primarily due to an increase in salaries resulting from annual incentive payments and an increase in outside service fees. Selling, general and administrative expenses remained relatively constant over the quarters ended December 31, 2011, September 30, 2011 and June 30, 2011.

Research and development expenses remained relatively constant in absolute dollars over the quarters ended December 31, 2010, September 30, 2010, June 30, 2010 and March 31, 2010. Research and development expenses for the three months ended June 30, 2011 increased compared to the three months ended March 31, 2011 primarily due to an increase in salaries resulting from annual incentive payments and increases in depreciation and amortization. Research and development expenses as a percentage of net sales remained relatively constant over the four quarters beginning from January 1, 2011.

Restructuring and impairment charges for the three months ended December 31, 2010, September 30, 2010, June 30, 2010 and March 31, 2010 were related to impairment of in-process research and development projects in each period, accounted for as indefinite-lived intangible assets as part of the application of fresh-start accounting. Restructuring and impairment charges for the three months ended September 30, 2011 and June 30, 2011, were primarily related to the closure of our research and development center in Japan and sales subsidiary in the U.K and impairment of twelve abandoned in-process research and development projects.

As a result of our April 2010 senior notes offering and repayment of our new term loan, our interest expense, net, for the three months ended June 30, 2010 increased compared to the three months ended March 31, 2010. Interest expenses for the three months ended September 30, 2010 increased compared to the three months ended June 30, 2010 as interest for the senior notes was fully recognized during the period. Interest expenses for the three months ended December 31, 2010 remained relatively constant compare to the three months ended September 30, 2010. Interest expenses for the three months ended September 30, 2011 decreased compared to the three months ended June 30, 2011 and the three months ended March 31, 2011 primarily due to a $35.0 million repurchase out of $250.0 million aggregate senior notes then outstanding. Interest expenses for the three months ended December 30, 2011 decreased compared to the three months ended September 30, 2011 primarily due to a $11.3 million repurchase out of $215.0 million aggregate senior notes then outstanding.

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 June 30, 2010 and the three months ended September 30, 2011, foreign currency loss was recognized due to the depreciation of the Korean won against the U.S. dollar. During the three months ended March 31, 2010, the three months ended September 30, 2010, the three months ended March 31, 2011, the three months ended June 30, 2011, and the three months ended December 31, 2011, foreign currency gains have been recognized due to the appreciation of the Korean won against the U.S. dollar. During the three months ended December 31, 2010, the foreign exchange rate between Korean won and the U.S. dollar remained relatively constant.

Others for each quarter in the year ended December 31, 2010 were comprised of dividend income from our investment in equity instruments and loss on valuation of derivatives, which represents either hedge ineffectiveness or components of changes in fair value of derivatives excluded from the assessments of hedge effectiveness. Others for fourth quarters beginning from January 1, 2011 were comprised of gain (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 for 2010 and 2011 were primarily comprised of withholding taxes paid on intercompany interest payments, current income taxes incurred in various jurisdictions in which we operate, liabilities for uncertain tax positions and the income tax effect from the change of deferred tax assets. Income tax benefits in the three months ended March 31, 2010 were primarily derived from the reversal of liabilities for uncertain tax positions due to the lapse of the applicable statute of limitations. Income tax expenses for the three months ended December 31, 2010 increased compared to the three months ended September 30 and June 30, 2010 primarily due to increase in liabilities for uncertain tax positions. Income tax expenses for the three months ended September 30, 2011 decreased compared to the three months ended June 30, 2011 primarily due to decrease in withholding taxes paid on intercompany interest payments.

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 $8.8 million of net proceeds from the MagnaChip Corporation IPO. Although we currently anticipate that these sources of liquidity will continue to be sufficient to meet our cash needs for the next twelve months and foreseeable future, we may from time to time in the future require or choose to obtain additional financing. If we raise additional funds through the issuance of equity, equity-linked or debt securities, those securities may have rights, preferences or privileges senior to the rights of our common stock, and our stockholders may experience dilution. If we need to raise additional funds in the future and are unable to do so or obtain additional financing on unfavorable terms in the future, it is possible we would have to limit certain planned activities including sales and marketing and research and development activities. Our ability to obtain financing will depend on, among other things, our business plans, operating performance, and the condition of the capital markets at the time we seek financing and could be adversely impacted by our 2009 reorganization proceedings and our non-compliance with bank covenants that preceded the filing. We cannot assure you that additional financing will be available to us on favorable terms when required, or at all. The current rating of our senior notes is B2 by Moody s and B+ by Standard and Poors, both of which are below investment grade. Any lowering of these ratings would adversely impact our ability to raise additional debt financing and increase the cost of any such financing that may be obtained. If we raise additional funds through the issuance of equity, equity-linked or debt securities, those securities may have rights, preferences or privileges senior to the rights of our common stock, and our stockholders may experience dilution. If we need to raise additional funds in the future and are unable to do so or obtain additional financing on unfavorable terms in the future, it is possible we would have to limit certain planned activities including sales and marketing and research and development activities.

As of December 31, 2011, our cash and cash equivalents balance was $162.1 million, a $10.1 million decrease, compared to $172.2 million as of December 31, 2010. The decrease resulted from $57.2 million of cash outflow used in investing activities and $59.1 million of cash outflow used in financing activities including $50.3 million repurchase of senior notes and $11.8 million stock repurchase, which was offset by $104.5 million of cash inflow provided by operating activities. As of December 31, 2010, our cash and cash equivalents balance was $172.2 million, a $107.2 million increase, compared to $64.9 million as of December 31, 2009. The increase resulted from $106.4 million of cash inflow provided by operating activities and $42.5 million of cash inflow provided by financing activities, which was offset by $43.7 million cash outflow used in investing activities.

On October 11, 2011, we announced that our board of directors adopted a stock repurchase program whereby we may, subject to prevailing market conditions and other factors, repurchase up to $35.0 million of our outstanding common stock. The stock repurchase program began on October 27, 2011 and will end on October 27, 2012 unless earlier terminated by our board. The stock repurchase program does not require that we purchase a minimum amount of shares of our common stock and may be commenced, suspended, resumed or terminated at any time without notice.

In addition, from time to time, depending on market conditions and other factors, we may, as part of ordinary cash management and treasury functions, repurchase and retire additional outstanding 10.500% senior notes due 2018, in open market, privately negotiated transactions or otherwise.

Cash Flows from Operating Activities

Cash inflows generated by operating activities totaled $104.5 million for the year ended December 31, 2011, compared to $106.4 million of cash provided by operating activities in the year ended December 31, 2010. The net operating cash inflow for the year ended December 31, 2011 reflects our net income of $21.8 million adjusted by non-cash charges of $93.6 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 $10.9 million.

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

Our working capital balance as of December 31, 2011 was $235.4 million compared to $273.6 million as of December 31, 2010. The $38.1 million decrease was primarily attributable to a $10.1 million decrease in cash and cash equivalents, a $5.6 million decrease in inventories, a $19.6 million increase in accounts payable and a $6.7 million increase in other current liabilities, which were partially offset by a $6.9 million increase in accounts receivable.

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

Cash Flows from Investing Activities

Cash flows used in investing activities totaled $57.2 million in the year ended December 31, 2011, compared to $43.7 million of cash generated by investing activities in the year ended December 31, 2010. The increase was primarily due to an increase in capital expenditures of $4.7 million.

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

Cash Flows from Financing Activities

Cash outflow used in financing activities totaled $59.1 million for the year ended December 31, 2011, compared to $42.5 million of cash inflow provided by financing activities for the year ended December 31, 2010. In March 2011, we completed the MagnaChip Corporation IPO in which an aggregate amount of $133.0 million of our equity securities were sold. Net proceeds from new shares of common stock issued by us from the MagnaChip Corporation IPO were $8.8 million, after deducting $3.6 million of IPO expenses paid for the three months ended March 31, 2011 and $0.9 million of underwriters discounts and commissions. In May 2011, we paid $38.2 million including repurchase premium of $3.2 million in order to repurchase $35.0 million out of $250.0 million aggregate senior notes then outstanding. In September 2011, we paid $12.1 million including repurchase premium of $0.8 million in order to repurchase $11.3 million out of $215.0 million aggregate senior notes then outstanding. During the fourth quarter, we purchased 1,531,540 shares of treasury stock at a cost of $11.8 million.

Cash flows provided by financing activities totaled $42.5 million in the year ended December 31, 2010, compared to $2.0 million in the combined twelve-month period ended December 31, 2009. On April 9, 2010, we completed the sale of $250 million in aggregate principal amount of senior notes. Of the $238.4 million of net proceeds, which represents $250 million of principal amount net of $3.3 million of original issue discount and $8.3 million of debt issuance costs, $130.7 million was used to make a distribution to our unitholders and $61.8 million was used to repay all outstanding borrowings under our new term loan. On August 31, 2010, we acquired $10.7 million of tangible assets as noncash investing and financing activities by entering into a capital lease agreement.

Capital Expenditures

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

For the year ended December 31, 2011, capital expenditures were $48.9 million, a $4.7 million, or 10.6%, increase from $44.2 million in the year ended December 31, 2010. The increase was due to supporting capacity expansion and technology improvements at our fabrication facilities in anticipation of sales growth.

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

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.

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Contractual Obligations

The following summarizes our contractual obligations as of December 31, 2011:

	Total	2012	2013	2014	2015	2016	Thereafter
				Payments Due by Period (In millions)			
Senior notes(1)	$ 342.7	$ 21.4	$ 21.4	$ 21.4	$ 21.4	$ 21.4	$ 235.8
Capital lease(2)	2.9	2.9					
Operating lease(2)	48.0	5.6	2.1	2.0	1.9	1.9	34.4
Others(3)	5.2	4.8	0.3	0.1			

(1) Interest payments as well as $203.7 million aggregate principal amount outstanding as of December 31, 2011 out of $250.0 million senior notes originally issued in April 2010, which bear interest at a rate of 10.500% per annum and mature in 2018.
(2) Assumes constant currency exchange rate for Korean won to U.S. dollars of 1,153.3.
(3) Includes license agreements and other contractual obligations.

The indenture relating to our 10.500% senior notes due 2018 contains covenants that limit our ability and the ability of our restricted subsidiaries to: (i) declare or pay any dividend or make any payment or distribution on account of or purchase or redeem our capital stock or equity interests of our restricted subsidiaries; (ii) make any principal payment on, or redeem or repurchase, prior to any scheduled repayment, sinking fund payment or maturity, any subordinated indebtedness; (iii) make certain investments; (iv) incur additional indebtedness and issue certain types of capital stock; (v) create or incur any lien (except for permitted liens) that secures obligations under any indebtedness or related guarantee; (vi) merge with or into or sell all or substantially all of our assets to other companies; (vii) enter into certain types of transactions with affiliates; (viii) guarantee the payment of any indebtedness; (ix) enter into sale-leaseback transactions; (x) enter into agreements that would restrict the ability of the restricted subsidiaries to make distributions with respect to their equity, to make loans to us or other restricted subsidiaries or to transfer assets to us or other restricted subsidiaries; and (xi) designate unrestricted subsidiaries.

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

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

We follow ASC guidance on uncertain tax positions. Our unrecognized tax benefits totaled $3.5 million as of December 31, 2011. These unrecognized tax benefits have been excluded from the above table because we cannot estimate the period of cash settlement with the respective taxing authorities.

Critical Accounting Policies and Estimates

Preparing financial statements in conformity with U.S. 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 Note 5 to the consolidated financial statements of MagnaChip Semiconductor Corporation for the year ended December 31, 2011 included elsewhere in this Report, are critical due to the fact that they involve a high degree of judgment and estimates about the effects of matters that are inherently uncertain. We base these estimates and judgments on historical

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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

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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.

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 in-process research and development, or IPR&D, 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.

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, 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.

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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.

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

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

Accounting for Stock/Unit-based Compensation

In 2006, we adopted ASC guidance addressing accounting for stock/unit-based compensation based on a fair value method. Under this guidance, stock/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 stock/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 stock/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 stock/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 stock/units involves complex and subjective judgments regarding projected financial and operating results, our unique business risks, the liquidity of our stock/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 share-based compensation expenses recorded because the estimated fair value of the underlying stock/units for the options granted would be different.

Fresh-Start Reporting

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

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

Cash Flow Hedges

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

We record the fair value of our foreign currency derivative contracts qualifying for cash flow hedge accounting treatment in our consolidated balance sheet with the effective portion of the related gain or loss on those contracts deferred in stockholders 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 May, 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-04 Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. The ASU is the result of joint efforts by the FASB and the International Accounting Standards Board (IASB) to develop a single, converged fair value framework. While the ASU is largely consistent with existing fair value measurement principles in U.S. GAAP, it expands existing disclosure requirements for fair value measurements and makes other amendments. Key additional disclosures include quantitative disclosures about unobservable inputs in Level 3 measures, qualitative information about sensitivity of Level 3 measures and valuation process, and classification within the fair value hierarchy for instruments where fair value is only disclosed in the footnotes but carrying amount is on some other basis. For public companies, the ASU is effective for interim and annual periods beginning after December 15, 2011. We do not expect adoption of this ASU to have a material impact on our results of operations, financial position or cash flow.

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income: Presentation of Comprehensive Income, which amends current comprehensive income guidance. This ASU eliminates the option to present the

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components of other comprehensive income as part of the statement of shareholders equity. Instead, it requires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. Under the two-statement approach, the first statement would include components of net income, which is consistent with the income statement format used today, and the second statement would include components of other comprehensive income (OCI). The ASU does not change the items that must be reported in OCI. ASU 2011-05 will be effective for public companies during the interim and annual periods beginning after December 15, 2011 with early adoption permitted. We do not expect adoption of this ASU to have a material impact on our results of operations, financial position or cash flow.

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. 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.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

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

Foreign Currency Exposures

We have exposure to foreign currency exchange rate fluctuations on net income from our subsidiaries denominated in currencies other than U.S. dollars, as our foreign subsidiaries in Korea, Taiwan, China, Japan and Hong Kong use local currency as their functional currency. From time to time these subsidiaries have cash and financial instruments in local currency. The amounts held in Japan, Taiwan, Hong Kong and China are not material in regards to foreign currency movements. However, based on the cash and financial instruments balance at December 31, 2011 for our Korean subsidiary, a 10% devaluation of the Korean won against the U.S. dollar would have resulted in a decrease of $4.6 million in our U.S. dollar financial instruments and cash balances. Based on the Japanese yen cash balance at December 31, 2011, a 10% devaluation of the Japanese yen against the U.S. dollar would have resulted in a decrease of $0.4 million in our U.S. dollar cash balance.

Interest Rate Exposures

As of December 31, 2011, $203.7 million aggregate principal amount of our senior notes remained outstanding. Our senior notes are subject to changes in fair value due to interest rate changes. If the market interest rate increases by 10% and all other variables were held constant from their levels at December 31, 2011, we estimate that the fair value of this fixed rate note would decrease by $9.7 million and we would have additional interest expense costs over the market rate of $1.0 million (on a 360-day basis). If the market interest rate decreased by 10% and all other variables were held constant from their levels at December 31, 2011, we estimate that the fair value of this fixed rate note would increase by $10.4 million and we would have a reduction in interest expense costs over the market rate of $1.2 million (on a 360-day basis).

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Item 8. Financial Statements and Supplementary Data

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

MagnaChip Semiconductor Corporation

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of changes in stockholders equity and of cash flows present fairly, in all material respects, the financial position of MagnaChip Semiconductor Corporation and its subsidiaries (the Company) at December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the years ended December 31, 2011 and 2010 and the two-month period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management s Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company s internal control over financial reporting based on our audit which was an integrated audit in 2011. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

/s/ Samil PricewaterhouseCoopers

Seoul, Korea

March 8, 2012

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Unitholders of MagnaChip Semiconductor LLC

In our opinion, the accompanying consolidated statements of operations, of changes in unitholders equity and of cash flows present fairly, in all material respects, the results of operations and cash flows of MagnaChip Semiconductor LLC and its subsidiaries (the Company) for the ten-month period ended October 25, 2009 (Predecessor Company), 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 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.

/s/ Samil PricewaterhouseCoopers

Seoul, Korea

March 13, 2010 (except for Note 30, as to which the date is August 4, 2010)

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MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	Successor	
	December 31, 2011	December 31, 2010
	(In thousands of US dollars, except share data)	
Assets		
Current assets		
Cash and cash equivalents	$ 162,111	$ 172,172
Restricted cash	6,830	
Accounts receivable, net	125,922	119,054
Inventories, net	62,836	68,435
Other receivables	256	2,919
Prepaid expenses	6,032	8,207
Other current assets	15,909	18,920
Total current assets	379,896	389,707
Property, plant and equipment, net	182,663	179,012
Intangible assets, net	16,787	27,538
Long-term prepaid expenses	4,790	8,235
Other non-current assets	18,539	21,252
Total assets	$ 602,675	$ 625,744
Liabilities and Stockholders Equity		
Current liabilities		
Accounts payable	$ 77,848	$ 58,264
Other accounts payable	13,452	14,645
Accrued expenses	31,723	32,635
Current portion of capital lease obligation	2,852	5,557
Derivative liabilities	9,757	
Other current liabilities	2,007	5,048
Total current liabilities	137,639	116,149
Long-term borrowings, net	201,389	246,882
Long-term obligation under capital lease		3,105
Accrued severance benefits, net	90,755	87,778
Other non-current liabilities	6,222	8,979
Total liabilities	436,005	462,893
Commitments and contingencies (Note 25)		
Stockholders equity		
Common stock, $0.01 par value, 150,000,000 shares authorized, 39,439,115 shares issued and 37,907,575 outstanding at December 31, 2011 and 38,401,989 shares issued and outstanding at December 31, 2010	394	384
Additional paid-in capital	98,929	95,585
Retained earnings	93,950	72,157

Treasury stock, 1,531,540 shares at December 31, 2011	(11,793)	
Accumulated other comprehensive loss	(14,810)	(5,275)
Total stockholders equity	166,670	162,851
Total liabilities and stockholders equity	$ 602,675	$ 625,744

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

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MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Successor			Predecessor
	Year Ended December 31, 2011	Year Ended December 31, 2010	Two-Month Period Ended December 31, 2009	Ten-Month Period Ended October 25, 2009
	(In thousands of US dollars, except share/unit data)			
Net sales	$ 772,831	$ 770,405	$ 111,082	$ 448,984
Cost of sales	538,515	526,847	90,408	311,139
Gross profit	234,316	243,558	20,674	137,845
Selling, general and administrative expenses	68,367	66,640	14,540	56,288
Research and development expenses	76,767	83,524	14,741	56,148
Restructuring and impairment charges	4,096	2,003		439
Special expense for IPO incentive	12,146			
Operating income (loss) from continuing operations	72,940	91,391	(8,607)	24,970
Other income (expenses)				
Interest expense, net (contractual interest expense of $47,828 for the ten-month period ended October 25, 2009)	(24,984)	(22,899)	(1,258)	(31,165)
Foreign currency gain (loss), net	(11,633)	14,724	9,338	43,437
Reorganization items, net				804,573
Loss on early extinguishment of senior notes	(5,459)			
Others	(1,052)	(706)		
	(43,128)	(8,881)	8,080	816,845
Income (loss) from continuing operations before income taxes	29,812	82,510	(527)	841,815
Income tax expenses	8,019	8,390	1,946	7,295
Income (loss) from continuing operations	21,793	74,120	(2,473)	834,520
Income from discontinued operations, net of taxes			510	6,586
Net income (loss)	$ 21,793	$ 74,120	$ (1,963)	$ 841,106
Dividends accrued on preferred units (contractual dividends of $11,819 for the ten-month period ended October 25, 2009)				6,317
Income (loss) from continuing operations attributable to common shares/units	$ 21,793	$ 74,120	$ (2,473)	$ 828,203
Net income (loss) attributable to common shares/units	$ 21,793	$ 74,120	$ (1,963)	$ 834,789
Earnings (loss) per common share/unit from continuing operations				
Basic	$ 0.56	$ 1.96	$ (0.07)	$ 15.65
Diluted	$ 0.55	$ 1.89	$ (0.07)	$ 15.65
Earnings per common share/unit from discontinued operations Basic and diluted	$	$	$ 0.02	$ 0.12

Earnings (loss) per common share/unit				
Basic	$ 0.56	$ 1.96	$ (0.05)	$ 15.77
Diluted	$ 0.55	$ 1.89	$ (0.05)	$ 15.77
Weighted average number of shares/units				
Basic	38,775,642	37,836,256	37,607,846	52,923,483
Diluted	39,774,898	39,144,287	37,607,846	52,923,483

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

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MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS /UNITHOLDERS EQUITY

	Common Stock/Units		Additional Paid-In	Retained earnings (accumulated	Common Stock Held in	Accumulated Other Comprehensive Income	
	Shares/Units	Amount	Capital	deficit)	Treasury	(loss)	Total
		(In thousands of US dollars, except share/unit data)					
Balance at January 1, 2009	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	37,500,044	375	215,486				215,861
Issuance of new warrants in connection with emergence from Chapter 11			2,533				2,533
Balance at October 25, 2009	37,500,044	$ 375	$ 218,019	$	$	$	$ 218,394
(Successor Company)							
Stock-based compensation	885,500	9	5,432				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	38,385,544	$ 384	$ 223,451	$ (1,963)	$	$ (6,182)	$ 215,690
(Successor Company)							
Forfeiture of restricted stock	(2,305)						
Stock-based compensation	18,750		2,823				2,823
Distribution to stockholders			(130,689)				(130,689)
Comprehensive income:							
Net income				74,120			74,120
Fair valuation of derivatives						3,982	3,982
						4,785	4,785

Reclassification to net income from accumulated other comprehensive loss related to hedge derivatives							
Foreign currency translation adjustments.						(7,938)	(7,938)
Unrealized gains on investments						78	78
Total comprehensive income							75,027
Balance at December 31, 2010	38,401,989	$ 384	$ 95,585	$ 72,157	$	$ (5,275)	$ 162,851

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	Common Stock/Units Shares/ Units	Amount	Additional Paid-In Capital	Retained earnings (accumulated deficit)	Common Stock Held in Treasury	Accumulated Other Comprehensive Income (loss)	Total
	(In thousands of US dollars, except share/unit data)						
(Successor Company)							
Forfeiture of restricted stock	(3,465)						
Stock-based compensation			1,258				1,258
Issuance of common stocks	950,586	10	1,557				1,567
Exercise of stock options	90,005		529				529
Acquisitions of treasury stock	(1,531,540)				(11,793)		(11,793)
Comprehensive income:							
Net income				21,793			21,793
Fair valuation of derivatives						(5,041)	(5,041)
Reclassification to net income from accumulated other comprehensive income related to hedge derivatives						(11,496)	(11,496)
Foreign currency translation adjustments.						7,105	7,105
Unrealized loss on investments						(103)	(103)
Total comprehensive income							12,258
Balance at December 31, 2011	37,907,575	$ 394	$ 98,929	$ 93,950	$ (11,793)	$ (14,810)	$ 166,670

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

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MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Successor Year Ended December 31, 2011	Successor Year Ended December 31, 2010	Successor Two-Month Period Ended December 31, 2009	Predecessor Ten-Month Period Ended October 25, 2009
	(In thousands of US dollars)			
Cash flows from operating activities				
Net income (loss)	$ 21,793	$ 74,120	$ (1,963)	$ 841,106
Adjustments to reconcile net income (loss) to net cash provided by operating activities				
Depreciation and amortization	51,224	58,395	11,218	38,255
Provision for severance benefits	14,698	19,684	1,851	8,835
Amortization of debt issuance costs and original issue discount	970	925		836
Loss (gain) on foreign currency translation, net	15,140	(17,084)	(10,077)	(44,224)
Loss (gain) on disposal of property, plant and equipment, net	(122)	39	17	95
Loss (gain) on disposal of intangible assets, net	25	13	5	(9,230)
Restructuring and impairment charges	2,499	2,003		(1,120)
Stock/Unit-based compensation	2,085	5,239	2,199	233
Cash used for reorganization items		1,573	4,263	1,076
Noncash reorganization items				(805,649)
Loss on early extinguishment of senior notes	5,459			
Other	1,682	4,177	(667)	2,722
Changes in operating assets and liabilities				
Accounts receivable	(6,234)	(41,370)	16,443	(12,930)
Inventories	4,274	(3,172)	6,739	(1,163)
Other receivables	2,657	297	1,755	31
Other current assets	(5,081)	2,997	3,192	5,896
Deferred tax assets	1,412	1,543	678	1,054
Accounts payable	18,084	(5,049)	(14,144)	6,316
Other accounts payable	(6,891)	8,483	(12,511)	(11,452)
Accrued expenses	(5,577)	3,992	(5,687)	28,295
Other current liabilities	(3,050)	962	1,188	39
Payment of severance benefits	(10,478)	(6,673)	(1,389)	(4,320)
Other	(38)	(3,129)	(1,002)	(9)
Net cash provided by operating activities before reorganization items	104,531	107,965	2,108	44,692
Cash used for reorganization items		(1,573)	(4,263)	(1,076)
Net cash provided by (used in) operating activities	104,531	106,392	(2,155)	43,616
Cash flows from investing activities				
Decrease (increase) in restricted cash	(7,199)			11,409
Proceeds from disposal of plant, property and equipment	219	10	37	329
Proceeds from disposal of intangible assets				9,375
Purchase of plant, property and equipment	(48,173)	(43,616)	(1,258)	(7,513)
Payment for intellectual property registration	(696)	(553)	(70)	(366)

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	Successor			Predecessor
	Year Ended December 31, 2011	Year Ended December 31, 2010	Two-Month Period Ended December 31, 2009	Ten-Month Period Ended October 25, 2009
	(In thousands of US dollars)			
Decrease (increase) in short-term financial instruments		329	(329)	
Collection of guarantee deposits	1,544	1,198		
Payment of guarantee deposits	(2,482)	(1,090)		
Other	(371)	(6)	23	(96)
Net cash provided by (used in) investing activities	(57,158)	(43,728)	(1,597)	13,138
Cash flows from financing activities				
Proceeds from issuance of common stock	9,336			
Proceeds from issuance of senior notes		246,685		
Debt issuance costs paid		(8,313)		
Issuance of new common units pursuant to the reorganization plan				35,280
Repayment of long-term borrowings		(61,750)		
Repurchase of senior notes	(50,307)			
Repayment of obligations under capital lease	(6,312)	(3,476)		
Repayment of short-term borrowings				(33,250)
Distribution to stockholders		(130,689)		
Acquisition of treasury stock	(11,793)			
Net cash provided by (used in) financing activities	(59,076)	42,457		2,030
Effect of exchange rates on cash and cash equivalents	1,642	2,126	1,098	4,758
Net increase (decrease) in cash and cash equivalents	(10,061)	107,247	(2,654)	63,542
Cash and cash equivalents				
Beginning of the period	172,172	64,925	67,579	4,037
End of the period	$ 162,111	$ 172,172	$ 64,925	$ 67,579
Supplemental cash flow information				
Cash paid for interest	$ 24,722	$ 17,070	$ 955	$ 7,962
Cash paid for income taxes	$ 1,954	$ 773	$ 669	$ 8,074
Noncash investing and financing activities				
Assets acquired under capital lease obligations	$	$ 10,673	$	$
Deferred offering costs reclassified as reduction of additional paid-in capital	$ 7,194	$	$	$

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

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MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(TABULAR DOLLARS IN THOUSANDS, EXCEPT SHARE/UNIT DATA)

1. General

The Company

MagnaChip Semiconductor Corporation, successor to 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. 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 that 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. See Note 3 Fresh-Start Reporting for further details.

The Plan of Reorganization provided for the satisfaction of claims against the Debtors through (i) the issuance of a new term loan in the amount of approximately $61.8 million in complete satisfaction of the first lien lender claims arising from the senior secured credit facility, (ii) the conversion to Parent equity of all claims arising from the Second Priority Senior Secured Notes and Senior Subordinated Notes, (iii) an offering of equity to the holders of the Second Priority Senior Secured Notes and (iv) a cash payment to holders of unsecured

MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(TABULAR DOLLARS IN THOUSANDS, EXCEPT SHARE/UNIT DATA)

claims. On the Reorganization Effective Date, among other events, (i) the liens and guarantees securing the Second Priority Senior Secured Notes and Senior Subordinated Notes were released and extinguished, (ii) funds affiliated with Avenue Capital Management II, L.P. became the majority unitholder of Parent and (iii) the new term loan was evidenced by the Amended and Restated Credit Agreement dated as of November 6, 2009, by and among MagnaChip Semiconductor S.A., MagnaChip Semiconductor Finance Company, Parent, the Subsidiary Guarantors, the Lenders party thereto, and Wilmington Trust FSB, as administrative agent for the Lenders and collateral agent for the secured parties.

During the period from the date of its Chapter 11 filing to the Fresh-Start Adoption Date (the Pre-Emergence Period), the Company recorded interest expense on pre-petition obligations only to the extent it believed the interest would be paid during the Reorganization Proceedings. Had the Company recorded interest expense based on its pre-petition contractual obligations pursuant to its Second Priority Senior Notes and Senior Subordinated Notes, interest expense would have been $47,828 thousand, a $16,663 thousand increase for the ten-month period ended October 25, 2009.

In addition, the Company s Series B redeemable convertible preferred units were also subject to compromise and no dividends were accrued during the Pre-Emergence Period. Had the Company recorded dividends based on pre-petition contractual obligations, dividends accrued on preferred units would have been $11,819 thousand, a $5,502 thousand increase for the ten-month period ended October 25, 2009.

3. Fresh-Start Reporting

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

Fresh-start reporting reflects the value of the Company as determined in the confirmed Plan of Reorganization. Under fresh-start reporting, the Company s asset values were remeasured and allocated in conformity with ASC 805, Business Combinations (ASC 805). Fresh-start reporting required that all liabilities, other than deferred taxes and severance benefits, be stated at fair value. Deferred taxes are determined in conformity with ASC 740, Income Taxes (ASC 740).

4. Completion of Initial Public Offering

Prior to the Company s initial public offering (the MagnaChip Corporation IPO), the Company s board of directors and the holders of a majority of its outstanding common units elected to convert the Company from a Delaware limited liability company to a Delaware corporation and to change the Company s name from MagnaChip Semiconductor LLC to MagnaChip Semiconductor Corporation. The corporate conversion was completed on March 10, 2011. In connection with the corporate conversion, outstanding common units of MagnaChip Semiconductor LLC were automatically converted into shares of common stock of the Company, outstanding options to purchase common units of the Company were automatically converted into options to purchase shares of common stock of the Company and outstanding warrants to purchase common units of MagnaChip Semiconductor LLC were automatically converted into warrants to purchase shares of common stock of the Company, all at a ratio of one share of common stock for eight common units.

On March 16, 2011, the Company also completed the MagnaChip Corporation IPO of 9,500,000 shares of common stock at an offering price of $14.00 per share and on March 11, 2011 listed on the NYSE. All shares

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MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(TABULAR DOLLARS IN THOUSANDS, EXCEPT SHARE/UNIT DATA)

were sold in the form of depositary shares and each depositary share represented an ownership interest in one share of common stock. Of the 9,500,000 shares, 950,000 shares were newly issued by the Company and 8,550,000 shares were sold by selling stockholders. The Company received $12,369 thousand of proceeds from the issuance of the new shares of common stock after deducting underwriters discounts and commissions, and the Company did not receive any proceeds from the sale of shares of common stock offered by the selling stockholders. The Company incurred $10,807 thousand of IPO expenses that were recorded as reduction of additional paid-in capital in the consolidated balance sheets.

The Company previously stated an intention to use a part of the net proceeds from the MagnaChip Corporation IPO to make incentive payments to all employees, excluding management. The payment of such employee incentives was contingent upon the consummation of the MagnaChip Corporation IPO. The Company paid $12,146 thousand of the incentives in March 2011.

5. Summary of Significant Accounting Policies

Basis of Presentation

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

In preparing the consolidated financial statements for the Predecessor Company and Successor Company, the Company applied ASC 852, which requires that the financial statements for periods subsequent to the Chapter 11 filing distinguish transactions and events that were directly associated with the reorganization from the ongoing operations of the business. Accordingly, certain expenses, realized gains and losses and provisions for losses that were realized or incurred in the Reorganization Proceedings were recorded in reorganization items, net on the consolidated statements of operations.

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

Principles of Consolidation

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

Use of Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the accompanying consolidated financial statements and disclosures. The most significant estimates and assumptions relate to the fair valuation of acquired assets and assumed liabilities, fair valuation of common shares/units, the useful life of property, plant and equipment, allowance for doubtful accounts receivable, contingent liabilities, inventory valuation, fair valuation of derivative financial instruments, restructuring accrual and impairment of long-lived assets. Although these estimates are based on management s best knowledge of current events and actions that the Company may undertake in the future, actual results may be different from the estimates.

Foreign Currency Translation

The Company has assessed in accordance with ASC 830, Foreign Currency Matters (ASC 830), the functional currency of each of its subsidiaries in Luxembourg, the Netherlands and the United Kingdom and has

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MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(TABULAR DOLLARS IN THOUSANDS, EXCEPT SHARE/UNIT DATA)

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

Cash and Cash Equivalents

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

Accounts Receivable Reserves

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

Inventories

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

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

Property, Plant and Equipment

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

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

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MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(TABULAR DOLLARS IN THOUSANDS, EXCEPT SHARE/UNIT DATA)

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

Borrowing costs incurred during the construction period of assets are capitalized as part of the related assets.

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

Impairment of Long-Lived Assets

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

Restructuring Charges

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

Lease Transactions

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

Software

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

MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(TABULAR DOLLARS IN THOUSANDS, EXCEPT SHARE/UNIT DATA)

Intangible Assets

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

Fair Value Disclosures of Financial Instruments

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

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

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

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

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

Accrued Severance Benefits

The majority of accrued severance benefits is for employees in the Company s Korean subsidiary. 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 December 31, 2011, 98% of all employees of the Company were eligible for severance benefits.

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

MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(TABULAR DOLLARS IN THOUSANDS, EXCEPT SHARE/UNIT DATA)

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

Revenue Recognition

Revenue is recognized when 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 the resulting receivable is reasonably assured. Utilizing these criteria, product revenue is recognized either upon shipment, upon delivery of the product at the customer s location or upon customer acceptance, depending on the terms of the arrangements. 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, the Company recognizes revenue on the earlier of the written notification or the pre-determined period from date of delivery. The Company s revenue recognition policy is consistent across its product lines, marketing venues, and geographic areas.

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

The Company s customers can return defective products, including products that do not meet the yield criteria. The Company accrues for the estimated costs that may be incurred for the defective products. In addition, the Company offers discounts to customers who make early payments. The Company estimates the amount to be paid to customers based on historical experience and expected rate of discount. The estimated discount amount is recorded as a deduction from net sales.

Other than product warranty obligations, yield provisions and customer acceptance provisions, sales contracts do not include any other post-shipment obligations that could have an impact on revenue recognition. In addition, the Company does not currently provide any credits, rebates or price protection or similar privileges that could have an impact on revenue recognition.

All amounts billed to a customer related to shipping and handling are classified as sales while all costs incurred by the Company for shipping and handling are classified as selling, general and administrative expenses. The amounts charged to selling, general and administrative expenses were $2,408 thousand, $1,594 thousand, $207 thousand and $752 thousand for the year ended December 31, 2011, the year ended December 31, 2010, the two-month period ended December 31, 2009 and the ten-month period ended October 25, 2009, respectively.

Derivative Financial instruments

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

Under the provisions of ASC 815, the Company may designate a derivative instrument as hedging the exposure to variability in expected future cash flows that are attributable to a particular risk (a cash flow hedge) or hedging the exposure to changes in the fair value of an asset or a liability (a fair value hedge). Special accounting for qualifying hedges allows the effective portion of a derivative instrument s gains and

MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(TABULAR DOLLARS IN THOUSANDS, EXCEPT SHARE/UNIT DATA)

losses to offset related results on the hedged item in the consolidated statements of operations and requires that a company formally document, designate and assess the effectiveness of the transactions that receive hedge accounting treatment. Both at the inception of a hedge and on an ongoing basis, a hedge must be expected to be highly effective in achieving offsetting changes in cash flows or fair value attributable to the underlying risk being hedged. If the Company determines that a derivative instrument is no longer highly effective as a hedge, it discontinues hedge accounting prospectively and future changes in the fair value of the derivative are recognized in current earnings. The Company assesses hedge effectiveness at the end of each quarter.

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

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

Advertising

The Company expenses advertising costs as incurred. Advertising expense was approximately $148 thousand, $106 thousand, $25 thousand and $70 thousand for the year ended December 31, 2011, the year ended December 31, 2010, the two-month period ended December 31, 2009 and the ten-month period ended October 25, 2009, respectively.

Product Warranties

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

Research and Development

Research and development costs are expensed as incurred and include wafers, masks, employee expenses, contractor fees, building costs, utilities and administrative expenses. Acquired IPR&D assets are considered indefinite-lived intangible assets and are not subject to amortization. An IPR&D asset must be tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test consists of a comparison of the fair value of the IPR&D asset with its carrying amount. If the carrying amount of the IPR&D asset exceeds its fair value, an impairment loss must be recognized in an amount equal to that excess. After an impairment loss is recognized, the adjusted carrying amount of the IPR&D asset will be its new accounting basis. Subsequent reversal of a previously recognized impairment loss is prohibited. The initial determination and subsequent evaluation for impairment of the IPR&D asset requires management to make significant judgments and estimates. Once the IPR&D projects have been completed, the useful life of the IPR&D asset is determined and amortized accordingly.

MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(TABULAR DOLLARS IN THOUSANDS, EXCEPT SHARE/UNIT DATA)

Licensed Patents and Technologies

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

Running royalty is paid based on the revenue of related products sold by the Company. For example, the Company entered into an agreement with a semiconductor design company, who comprised 78.6%, 77.5%, 88.4% and 94.4% of total running royalty expenses in the year ended December 31, 2011, the year ended December 31, 2010, the two-month period ended December 31, 2009 and the ten-month period ended October 25, 2009, respectively.

Stock/Unit-Based Compensation

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

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

Earnings per Share/Unit

In accordance with ASC 260, Earnings Per Share (ASC 260), the Company computes basic earnings from continuing operations per share/unit and basic earnings per share/unit by dividing income from continuing operations available to common stockholders/unitholders and net income available to common stockholders/unitholders, respectively, by the weighted average number of common shares/units outstanding during the period which would include, to the extent their effect is dilutive options to purchase common stock/units and restricted stock/units. Diluted earnings per share/unit reflect the dilution of potential common stock/units outstanding during the period. In determining the hypothetical shares/units repurchased, the Company uses the average share/unit price for the period.

Income Taxes

Prior to its conversion to a corporation, MagnaChip Semiconductor Corporation elected to be treated as a partnership for U.S. federal income tax purposes and therefore was not subject to income taxes on its income. Taxes on its income were the responsibility of the individual equity owners of MagnaChip Semiconductor

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Corporation. MagnaChip Semiconductor Corporation became a taxable entity according to the corporate conversion. The Company operates a number of subsidiaries that are subject to local income taxes in those markets.

The Company accounts for income taxes in accordance with ASC 740, Income Taxes (ASC 740). ASC 740 requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in a company s financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based upon the difference between the financial statement carrying amounts and the tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. Valuation allowances are established when 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.

The Company follows Financial Accounting Standards Board (FASB) interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109, codified as ASC 740, which prescribes a recognition threshold and measurement attribute for tax positions taken or expected to be taken in a tax return. This interpretation also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The evaluation of a tax position in accordance with this interpretation is a two-step process. In the first step, recognition, the Company determines whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The second step addresses measurement of a tax position that meets the more-likely-than-not criteria. The tax position is measured at the largest amount of benefit that has a likelihood of greater than 50 percent of being realized upon ultimate settlement. Differences between tax positions taken in a tax return and amounts recognized in the financial statements will generally result in (a) an increase in a liability for income taxes payable or a reduction of an income tax refund receivable, (b) a reduction in a deferred tax asset or an increase in a deferred tax liability or (c) both (a) and (b). Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be de-recognized in the first subsequent financial reporting period in which that threshold is no longer met. Use of a valuation allowance as described in ASC 740 is not an appropriate substitute for the de-recognition of a tax position. The requirement to assess the need for a valuation allowance for deferred tax assets based on sufficiency of future taxable income is unchanged by this interpretation.

Segment Information

The Company has determined, based on the nature of its operations and products offered to customers, that its reportable segments are Display Solutions, Semiconductor Manufacturing Services and Power Solutions. The Display Solutions segment s primary products are flat panel display drivers and the Semiconductor Manufacturing Services segment provides wafer foundry services to clients. The Power Solutions segment s 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. Net sales for the All other category primarily relate to certain business activities that do not constitute operating or reportable segments.

The Company s chief operating decision maker (CODM) as defined by ASC 280, Segment Reporting (ASC 280), allocates resources to and assesses the performance of each segment using information about its revenue. The Company does not identify or allocate assets by segments, nor does the CODM evaluate operating

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segments using discrete asset information. In addition, the Company does not allocate operating expenses, interest income or expense, other income or expense, or income tax expenses to the segments. Management does not evaluate segments based on these criteria.

Concentration of Credit Risk

The Company performs periodic credit evaluations of its customers financial condition and generally does not require collateral for customers on accounts receivable. The Company maintains reserves for potential credit losses, but historically has not experienced significant losses related to individual customers or groups of customers in any particular industry or geographic area. The Company derives a substantial portion of its revenues from export sales through its overseas subsidiaries in Asia, North America and Europe.

Recent Accounting Pronouncements

In May, 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-04 Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. The ASU is the result of joint efforts by the FASB and the International Accounting Standards Board (IASB) to develop a single, converged fair value framework. While the ASU is largely consistent with existing fair value measurement principles in U.S. GAAP, it expands existing disclosure requirements for fair value measurements and makes other amendments. Key additional disclosures include quantitative disclosures about unobservable inputs in Level 3 measures, qualitative information about sensitivity of Level 3 measures and valuation process, and classification within the fair value hierarchy for instruments where fair value is only disclosed in the footnotes but carrying amount is on some other basis. For public companies, the ASU is effective for interim and annual periods beginning after December 15, 2011. The Company does not expect adoption of this ASU to have a material impact on our results of operations, financial position or cash flow.

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income: Presentation of Comprehensive Income, which amends current comprehensive income guidance. This ASU eliminates the option to present the components of other comprehensive income as part of the statement of shareholders equity. Instead, it requires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. Under the two-statement approach, the first statement would include components of net income, which is consistent with the income statement format used today, and the second statement would include components of other comprehensive income (OCI). The ASU does not change the items that must be reported in OCI. ASU 2011-05 will be effective for public companies during the interim and annual periods beginning after December 15, 2011 with early adoption permitted. The Company does not expect adoption of this ASU to have a material impact on our results of operations, financial position or cash flow.

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

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beginning after December 15, 2010. The adoption of ASU 2010-06 except for the level 3 reconciliation as of January 1, 2010 did not have a material effect on the Company s financial condition or results of operations. The adoption of ASU 2010-06 in relation to the Level 3 reconciliation as of January 1, 2011 did not have a material effect on the Company s financial condition or results of operations.

6. Reorganization Related Items

In accordance with ASC 852, the financial statements for the Predecessor Company periods distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the Company. In connection with the bankruptcy proceedings, implementation of the Plan of Reorganization and adoption of fresh-start reporting, the Company recorded the following reorganization income (expense) items:

	Predecessor Ten-Month Period Ended October 25, 2009
Professional fees	$ (7,459)
Revaluation of assets	31,399
Effects of the plan of reorganization	780,981
Write-off of debt issuance costs	(166)
Others	(182)
Total	$ 804,573

Included in reorganization items, net for the ten-month period ended October 25, 2009 was the Predecessor Company s gain recognized from the effects of the Plan of Reorganization. The gain results from the difference between the Predecessor Company s carrying amount of remaining pre-petition liabilities subject to compromise and the amounts to be distributed pursuant to the Plan of Reorganization. The gain from the effects of the Plan of Reorganization is comprised of the following:

	Predecessor Ten-Month Period Ended October 25, 2009
Discharge of liabilities subject to compromise	$ 798,043
Issuance of new common stock	(14,259)
Issuance of new warrants	(2,533)
Accrual of amounts to be settled in cash	(270)
Gain from the effects of the Plan of Reorganization	$ 780,981

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Liabilities subject to compromise represent the liabilities of the Company incurred prior to the petition date, except those that will not be impaired under the Plan of Reorganization. Liabilities subject to compromise consisted of the following at October 25, 2009.

	Predecessor October 25, 2009
General unsecured claims	$ 2,702
Current portion of long-term debt-old	750,000
Accrued interest on current portion of long-term debt	45,341
Total	$ 798,043

7. 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.

The following table represents the Company s assets and liabilities measured at fair value on a recurring basis as of December 31, 2011 and the basis for that measurement:

	Carrying Value December 31, 2011	Fair Value Measurement December 31, 2011	Quoted Prices in Active Markets for Identical Asset (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:					
Available-for-sale securities (other non-current assets)	$ 572	$ 572	$ 572	$	$
Liabilities:					
Derivative liabilities	9,757	9,757		9,757	

The following table represents the Company s assets measured at fair value on a recurring basis as of December 31, 2010 and the basis for that measurement:

	Carrying Value December 31, 2010	Fair Value Measurement December 31, 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 (other current assets)	$	8,322	$	8,322	$		$	8,322	$
Available-for-sale securities (other non-current assets)		673		673		673			

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At December 31, 2011, there were $203.7 million of principal amount of 10.5% senior notes outstanding. The carrying amount of 10.5% senior notes was $201,389 thousand at December 31, 2011. The fair value of the $203.7 million senior notes at December 31, 2011 was estimated to be $214,894 thousand, based on quoted market rates.

At December 31, 2010, there were $250 million of 10.5% senior notes outstanding. The carrying amount of 10.5% senior notes was $242,882 thousand at December 31, 2010. The fair value of the $250 million senior notes at December 31, 2010 was estimated to be $267,813 thousand, based on quoted market rates.

8. Accounts Receivable

Accounts receivable as of December 31, 2011 and 2010 consisted of the following:

	Successor	
	December 31, 2011	December 31, 2010
Accounts receivable	$ 118,793	$ 111,420
Notes receivable	9,603	10,699
Less:		
Allowances for doubtful accounts	(462)	(609)
Cash return reserve	(481)	(322)
Low yield compensation reserve	(1,531)	(2,134)
Accounts receivable, net	$ 125,922	$ 119,054

Changes in allowance for doubtful accounts for the years ended December 31, 2011 and 2010 are as follows:

	Successor	
	Year Ended December 31, 2011	Year Ended December 31, 2010
Beginning balance	$ (609)	$ (377)
Bad debt expense	146	(217)
Write off		
Translation adjustments	1	(15)
Ending balance	$ (462)	$ (609)

Changes in cash return reserve for the years ended December 31, 2011 and 2010 are as follows:

Successor

	Year Ended December 31, 2011	Year Ended December 31, 2010
Beginning balance	$ (322)	$ (1,729)
Addition to reserve	(2,750)	(776)
Payment made	2,587	2,172
Translation adjustments	4	11
Ending balance	$ (481)	$ (322)

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Changes in low yield compensation reserve for the years ended December 31, 2011 and 2010 are as follows:

	Successor	
	Year Ended December 31, 2011	Year Ended December 31, 2010
Beginning balance	$ (2,134)	$ (1,437)
Addition to reserve	(861)	(2,168)
Payment made	1,468	1,508
Translation adjustments	(4)	(37)
Ending balance	$ (1,531)	$ (2,134)

9. Inventories

Inventories as of December 31, 2011 and 2010 consist of the following:

	Successor	
	December 31, 2011	December 31, 2010
Finished goods	$ 7,140	$ 13,529
Semi-finished goods and work-in-process	46,562	50,542
Raw materials	9,933	9,762
Materials in-transit	1,471	1,643
Less: inventory reserve	(2,270)	(7,041)
Inventories, net	$ 62,836	$ 68,435

Changes in inventory reserve for the years ended December 31, 2011 and 2010 are as follows:

	Successor	
	Year Ended December 31, 2011	Year Ended December 31, 2010
Beginning balance	$ (7,040)	$ (4,579)
Change in reserve	2,997	(5,936)
Write off	1,709	3,606
Translation adjustments	64	(132)
Ending balance	$ (2,270)	$ (7,041)

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10. Property, Plant and Equipment

Property, plant and equipment as of December 31, 2011 and 2010 are comprised of the following:

	Successor	
	December 31, 2011	**December 31, 2010**
Buildings and related structures	$ 73,021	$ 73,945
Machinery and equipment	151,100	112,398
Vehicles and others	11,998	8,007
Equipment under capital lease	11,160	11,457
	247,279	205,807
Less: accumulated depreciation	(78,130)	(41,440)
accumulated depreciation on equipment under capital lease	(2,414)	(836)
Land	15,928	15,481
Property, plant and equipment, net	$ 182,663	$ 179,012

Aggregate depreciation expenses totaled $41,812 thousand and $36,261 thousand for the year ended December 31, 2011, and 2010, respectively.

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

11. Intangible assets

Intangible assets at December 31, 2011 and 2010 are as follows:

	Successor	
	December 31, 2011	**December 31, 2010**
Technology	$ 21,126	$ 19,969
Customer relationships	26,777	27,115
Intellectual property assets	5,868	5,444
In-process research and development		3,418
Less: accumulated amortization	(36,984)	(28,408)

Intangible assets, net	$ 16,787	$ 27,538

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Aggregate amortization expenses for intangible assets totaled $9,412 thousand and $22,134 for the year ended December 31, 2011, and 2010, respectively. The estimated aggregate amortization expense of intangible assets for the next five years is $8,336 thousand in 2012, $6,520 thousand in 2013, $1,284 thousand in 2014, $76 thousand in 2015 and $76 thousand in 2016.

As part of its application of fresh-start reporting, the Company recognized fair value associated with IPR&D of $9,700 thousand. The Company accounted for IPR&D as an indefinite-lived intangible asset until completion or abandonment of the associated research and development (R&D) projects. The IPR&D charges incurred by the Company s Semiconductor Manufacturing Services (SMS) segment related to design of a product to the point that it met specific technical requirements, directly targeted at customers. The Display Solutions segment incurs IPR&D charges related to the design of possible products. These R&D efforts are intended to incur incremental sales with the Company s existing and new customers.

When a project is completed, the carrying amount of the related IPR&D is reclassified into technology and amortized over the remaining estimated life of the asset beginning in the period in which the project is completed and sales of related product is recognized. Accordingly, IPR&D of $1,700 thousand in the Display Solutions segment and $2,950 thousand in the SMS segment were reclassified into technology in 2010 and $1,572 thousand in the SMS segment was reclassified into technology in 2011.

IPR&D assets are reviewed at least annually for impairment or more frequently if changes in circumstances indicate the asset may be impaired. If a project becomes impaired or abandoned, the carrying amount of the related intangible asset would be written down to its fair value and an impairment charge would be taken in the period in which the impairment occurs. The Company performed its annual impairment test as of September 30, 2010 and no impairment test was performed in 2011 since all remaining IPR&D projects were abandoned. The impairment test consists of a comparison of the fair value of the IPR&D with its carrying amount. The excess earnings method was applied as a valuation method that establishes the business value based on a stream of future economic benefits, such as net cash flows, discounted to their present value. This calculation is highly sensitive to both the estimated future cash flows from each R&D project and the discount rate assumed in these calculations. These components are discussed below:

Estimated future cash flows

The key variables that the Company must estimate to determine future cash flows include assumptions for sales volume, selling prices, raw material costs, labor and other employee benefit costs, capital additions and other economic or market-related factors. Significant management judgment is involved in estimating these variables, and they include inherent uncertainties since they are forecasting future events. For example, unanticipated changes in competition, customer sourcing requirements and product maturity would all have a significant impact on these estimates.

Discount rate

The Company employs a Weighted Average Cost of Capital (WACC) approach to determine the Company s discount rate for IPR&D impairment testing. The Company s WACC calculation includes factors such as the risk free rate of return, cost of debt and expected equity premiums. The factors in this calculation are largely external to the Company, and therefore are beyond the Company s control.

When the carrying amount of any IPR&D project exceeds its estimated fair value on a project by project basis, an impairment charge must be recognized in an amount equal to that excess. Accordingly, the Company recognized $2,003 thousand of impairment charges for the year ended December 31, 2010, which consisted of

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$391 thousand from IPR&D annual impairment test and $1,612 thousand from twelve abandoned IPR&D projects. The Company recognized $2,016 thousand of impairment charges for the year ended December 31, 2011 from twelve abandoned IPR&D projects.

12. Derivative Financial Instruments

The Company s Korean subsidiary entered into option, forward and 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.

Details of derivative contracts as of December 31, 2011 are as follows:

Date of transaction	Type of derivative	Total notional amount	Month of settlement
January 17, 2011	Zero cost collar	$ 60,000	January to June 2012
March 16, 2011	Zero cost collar	24,000	January to March 2012
August 2, 2011	Zero cost collar	24,000	April to June 2012
August 8, 2011	Forward	54,000	July to September 2012
August 19, 2011	Forward	54,000	October to December 2012

The option, forward and zero cost collar 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, forward and zero cost collar contracts recorded as assets and liabilities as of December 31, 2011 and December 31, 2010 are as follows:

Derivatives designated as hedging instruments:		December 31, 2011	December 31, 2010
Asset Derivatives:			
Options	Other current assets	$	$ 104
Forward	Other current assets		6,674
Zero cost collars	Other current assets		1,544
Liabilities Derivatives:			
Forward	Derivative liabilities	6,801	
Zero cost collars	Derivative liabilities	2,956	

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.

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The following table summarizes the impact of derivative instruments on the consolidated statement of operations for the years ended December 31, 2011 and 2010:

Derivatives in ASC 815 Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion)		Location of Gain (Loss) Reclassified from AOCI into Statement of Operations (Effective Portion)	Amount of Gain (Loss) Reclassified from AOCI into Statement of Operations (Effective Portion)		Location of Gain (Loss) Recognized in Statement of Operations on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain (Loss) Recognized in Statement of Operations on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	2011	2010		2011	2010		2011	2010
Options	$ (85)	$ (1,416)	Net sales	$ (829)	$ (751)	Other income (expenses) Others	$ (18)	$ (72)
Forward	(3,061)	3,856	Net sales	10,771	(4,034)	Other income (expenses) Others	(277)	(720)
Zero cost collars	(1,895)	1,542	Net sales	1,554		Other income (expenses) Others	(764)	81
Total	$ (5,041)	$ 3,982		$ 11,496	$ (4,785)		$ (1,059)	$ (711)

The estimated net loss as of December 31, 2011 that is expected to be reclassified from accumulated other comprehensive income (loss) into earnings within the next twelve months is $9,001 thousand.

The Company s option, forward and zero cost collar 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 (GS), the counterparty to the option, forward and zero cost collar contracts, for any exposure in excess of $5 million. As of December 31, 2011, the Company has transferred $6,830 thousand of cash collateral to GS for the purpose of credit support to the counterparty. This cash collateral is changed depending on derivative market exposures. GS is required to return the cash collateral to the Company when the derivative market exposures decreases. Under this circumstance, the Company recorded the balance of $6,830 thousand as restricted cash in the balance sheet as of December 31, 2011.

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13. Product Warranties

Changes in accrued warranty liabilities for each period are as follows:

	Successor	
	Year Ended December 31, 2011	Year Ended December 31, 2010
Beginning balance	$ 266	$ 921
Addition (decrease) to warranty reserve	1,172	(247)
Payments made	(879)	(432)
Translation adjustments	(9)	24
Ending balance	$ 550	$ 266

14. Long-term Borrowings

Long-term borrowings as of December 31, 2011 and December 31, 2010 are as follows:

	Successor	
	December 31, 2011	December 31, 2010
10.5% senior notes due April 2018	203,691	250,000
Discount on 10.5% senior notes due April 2018	(2,302)	(3,118)
Long-term borrowings, net of unamortized discount	$ 201,389	$ 246,882

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 accrues 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 principal amount will be due 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. For the accrual of interest expense, the Company uses the effective interest method and accrues interest at an effective rate of 11.04% per annum.

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, $130,689 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 $46,087 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

MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

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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.

The indenture relating to the Company s 10.5% 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; (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 are 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 December 31, 2011, the Company is compliant with all of its covenant requirements in the indenture governing the senior notes.

On May 16, 2011, two of the Company s wholly-owned subsidiaries, MagnaChip Semiconductor S.A. and MagnaChip Semiconductor Finance Company, repurchased $35.0 million out of $250.0 million aggregate principal amount of the Company s 10.5% senior notes due April 15, 2018 at a price of 109.0% from funds affiliated with Avenue Capital Management II, L.P.

On September 19, 2011, two of the Company s wholly-owned subsidiaries, MagnaChip Semiconductor S.A. and MagnaChip Semiconductor Finance Company, additionally repurchased $11.3 million out of the Company s $215.0 million aggregate principal amount of 10.5% senior notes due April 15, 2018 at a price of 107.5% from unrelated note holders in the open market.

In connection with the repurchases of the Company s senior notes, the Company recognized $5,460 thousand of loss on early extinguishment of senior notes, which consisted of $3,998 thousand from repurchase premium, $554 thousand from write-off of discounts, $609 thousand from write-off of debt issuance costs and $299 thousand from incurrence of direct legal and advisory service fees.

15. Capital Leases

The Company entered into several lease agreements for the use of equipment for manufacturing and research and development. These leases are accounted for as capital leases as the ownership of the equipment will be transferred to the Company upon expiration of the lease terms.

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Future minimum payments under the capital lease as of December 31, 2011 were as follows:

Payable during	Capital Lease
2012	2,948
Total future minimum lease payments	2,948
Less: Amount representing interest (a)	(96)
Present value of net minimum lease payments	2,852

(a) The lessor s implicit rate at lease inception was applied.

16. 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 December 31, 2011, 98% of all employees of the Company were eligible for severance benefits.

Changes in accrued severance benefits for each period are as follows:

	Successor	
	Year Ended December 31, 2011	Year Ended December 31, 2010
Beginning balance	$ 88,973	$ 73,646
Provisions	14,698	19,684
Severance payments	(10,478)	(6,673)
Translation adjustments	(1,311)	2,316
	91,882	88,973
Less: cumulative contributions to the National Pension Fund	(403)	(463)
Group severance insurance plan	(724)	(732)
	$ 90,755	$ 87,778

The severance benefits are funded approximately 1.23% and 1.34% as of December 31, 2011 and 2010 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.

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The Company is liable to pay the following future benefits to its employees upon their normal retirement age:

	Severance Benefit
2012	$ 154
2013	
2014	312
2015	338
2016	1,166
2017 2021	13,004

The above amounts were determined based on the 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 employees that will cease working with the Company before their normal retirement ages.

17. Warrants

In connection with the Company s reorganization, the Company issued warrants to purchase 1,875 thousand of the Company s new common stock. The warrants were issued in partial satisfaction of the claims of the holders of the Company s Senior Subordinated Notes and are exercisable at a price of $15.76 per share at any time following the issue date of the warrants, so long as the exercise of the warrants is exempt from the registration requirements of the Securities Act of 1933, as amended. The value of each warrant to purchase one common share was $1.35, which was estimated using the Black-Scholes option pricing model using the following assumptions: fair value of $6.32 per common share, exercise price of $15.76 per share, risk free rate of interest of 2.3%, volatility of 50%, dividend rate of 0% and term of 5 years.

18. Common Stock

Common stock par value $0.01 per share, was authorized in the amount of 150,000 thousand shares, of which 39,439 and 37,908 thousand shares were issued and outstanding as of December 31, 2011, respectively.

Changes in common stock for each period are as follows:

	Successor			
	Year ended December 31, 2011		Year ended December 31, 2010	
	Shares	Amount	Shares	Amount
Common stock at the beginning of the period	38,401,989	$ 384	38,385,544	$ 384
Restricted stock bonuses issued			18,750	
Forfeiture of restricted stock bonuses	(3,465)		(2,305)	
Issuance of common stock	950,586	10		
Exercise of stock options	90,005			
Acquisitions of treasury stock	(1,531,540)			
Total common stock outstanding at the end of the period	37,907,575	$ 394	38,401,989	$ 384

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On October 7, 2011, the Board of Directors of the Company approved a stock repurchase program under which the Company intends to repurchase up to $35 million of its common stock. The stock repurchase program will be funded with the Company s cash on hand and is effective beginning October 27, 2011, through October 27, 2012. The repurchase program does not obligate the Company to repurchase a minimum number of shares, and the program may be commenced, suspended, canceled or resumed at any time without prior notice. The timing and extent of any repurchases will depend upon prevailing market conditions, the trading price of the Company s common stock and other factors, and subject to restrictions under applicable law and regulations. During the fourth quarter of 2011, the Company purchased 1,532 thousand of shares of common stock on the open market at a cost of $11,793 thousand. The Company accounted for the treasury stock using the cost method, which treats it as temporary reduction in stockholders equity. As a result, the stockholders equity has decreased by $11,793 thousand.

19. Equity Incentive Plans

Successor Company

The Successor Company adopted its 2009 Common Unit Plan effective December 8, 2009, which is administered by the board of directors. Under the plan, employees, consultants and non-employee directors are eligible for equity incentives, including grants of options to purchase the Company s common stock or restricted stock bonuses or restricted stock purchase rights and deferred stock awards, subject to terms and conditions determined by the board of directors. The term of options shall not exceed ten years from the date of grant. Restricted stock purchase rights shall be exercisable within a period established by the board of directors, which shall in no event exceed thirty days from the effective date of the grant. As of December 31, 2011, an aggregate maximum of 3,750 thousand shares were authorized and 750 thousand shares were reserved for all future grants.

Stock options are generally granted with exercise prices of no less than the fair market value of the Company s common stock on the grant date. The requisite service period, or the period during which a grantee is required to provide service in exchange for option grants, coincides with the vesting period.

The purchase price for shares issuable under each restricted stock purchase right shall be established by the board of directors in its discretion. No monetary payment (other than applicable tax withholding) shall be required as a condition of receiving shares pursuant to a restricted stock bonus, the consideration for which shall be services actually rendered to a participating company or for its benefit. Stock issued pursuant to any restricted stock award may (but need not) be made subject to vesting conditions based upon the satisfaction of such service requirements, conditions, restrictions or performance criteria as shall be established by the board of directors and set forth in the award agreement evidencing such award. During any period in which stock acquired pursuant to a restricted stock award remain subject to vesting conditions, such stock may not be sold, exchanged, transferred, pledged, assigned or otherwise disposed of other than pursuant to an ownership change event or transfer by will or the laws of descent and distribution. The grantee shall have all of the rights of a stockholder of the Company holding stock, including the right to vote such stock and to receive all dividends and other distributions paid with respect to such stock; provided, however, that if so determined by the board of directors and provided by the award agreement, such dividends and distributions shall be subject to the same vesting conditions as the stock subject to the restricted stock award with respect to which such dividends or distributions were paid. If a grantee s service terminates for any reason, whether voluntary or involuntary (including the grantee s death or disability), then (a) the Company (or its assignee) has the option to repurchase for the purchase price paid by the grantee any stock acquired by the grantee pursuant to a restricted stock purchase right which remain subject to vesting conditions as of the date of the grantee s termination of service and (b) the grantee shall forfeit to the

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Company any stock acquired by the grantee pursuant to a restricted stock bonus which remain subject to vesting conditions as of the date of the grantee s termination of service. The Company shall have the right to assign at any time any repurchase right it may have, whether or not such right is then exercisable, to one or more persons as may be selected by the Company.

No monetary payment (other than applicable tax withholding, if any) is required as a condition of receiving a deferred stock award, the consideration for which shall be services actually rendered to a participating company or for its benefit. Deferred stock awards may (but need not) be made subject to vesting conditions based upon the satisfaction of such service requirements, conditions, restrictions or performance criteria as shall be established by the Committee and set forth in the award agreement evidencing such award. Grantees have no voting rights with respect to stock represented by deferred stock awards until the date of the issuance of such stock (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company). If a grantee s service terminates for any reason, whether voluntary or involuntary (including the grantee s death or disability), then the grantee shall forfeit to the Company any deferred stock pursuant to the award which remain subject to vesting conditions as of the date of the grantee s termination of service, and, in the event of the grantee s termination for cause, such deferred stock award to the extent not yet settled. The Company shall issue to a grantee on the date on which deferred stock subject to the grantee s deferred stock award vest or on such other date determined by the board of directors, in its discretion, and set forth in the award agreement one share (and/or any other new, substituted or additional securities or other property) for each deferred stock then becoming vested or otherwise to be settled on such date, subject to the withholding of applicable taxes, if any.

The following summarizes stock option and restricted stock bonus activities for the year ended December 31, 2011, the year ended December 31, 2010 and the two-month period ended December 31, 2009 after giving effect to the corporate conversion. At the date of grant, all options had an exercise price above the fair value of common stock:

	Successor Company				
	Number of Restricted Stock Bonuses	Number of Options	Weighted Average Exercise Price of Stock Options	Aggregate Intrinsic Value of Stock Options	Weighted Average Remaining Contractual Life of Stock Options
Outstanding at October 25, 2009					
Granted	885,500	1,920,625	$ 9.28		
Released from restriction	(301,070)				
Outstanding at December 31, 2009	584,430	1,920,625	9.28		9.9 years
Vested and expected to vest at December 31, 2009		1,694,163	9.28		9.9 years
Exercisable at December 31, 2009					
Outstanding at January 1, 2010	584,430	1,920,625	$ 9.28		9.9 years
Granted	18,750	114,250	15.60		
Released from restriction	(309,810)				
Forfeited	(2,309)	(77,115)	5.88		
Outstanding at December 31, 2010	291,061	1,957,760	6.32	14,158	9.0 years

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	Successor Company				
	Number of Restricted Stock Bonuses	Number of Options	Weighted Average Exercise Price of Stock Options	Aggregate Intrinsic Value of Stock Options	Weighted Average Remaining Contractual Life of Stock Options
Vested and expected to vest at December 31, 2010		1,868,665		13,528	9.0 years
Exercisable at December 31, 2010		629,935		4,838	8.9 years
Outstanding at January 1, 2011	291,061	1,957,760	$ 6.32	14,158	9.0 years
Granted		181,125	11.68		
Released from restriction	(287,595)				
Forfeited	(3,466)	(39,920)	8.37		
Exercised		(90,005)	5.88		
Outstanding at December 31,2011		2,008,960	6.79	2,773	8.1 years
Vested and expected to vest at December 31, 2011		1,974,804	6.75	2,743	8.1 years
Exercisable at December 31, 2011		1,234,218	6.36	1,854	8.1 years

On April 19, 2010, the Company made a distribution to its stockholders of $3.40 per share, which resulted in the option exercise price of all outstanding options being reduced by $3.40 pursuant to the anti-dilution provision in the award agreement.

Total compensation expenses recorded for the restricted stock bonuses and stock options pursuant to ASC 718 were $882 thousand and $1,203 thousand for the year ended December 31, 2011, $2,923 thousand and $2,316 thousand for the year ended December 31, 2010 and $2,073 thousand and $126 thousand for the two-month period ended December 31, 2009, respectively. As of December 31, 2011, there was $573 thousand of total unrecognized compensation cost related to stock options, which is expected to be recognized over a weighted average future periods of 0.7 year. As of December 31, 2010, there were $823 thousand and $1,314 thousand of total unrecognized compensation cost related to unvested restricted stock bonuses and stock options, which are expected to be recognized over a weighted average future periods of 0.9 years and 1.0 years, respectively. As of December 31, 2009, there were $3,243 thousand and $2,811 thousand of total unrecognized compensation cost related to unvested restricted stock bonuses and stock options, which are expected to be recognized over a weighted average future periods of 1.4 years and 1.7 years, respectively. Total fair values of restricted stock bonuses released from restriction were $1,818 thousand, $2,157 thousand and $1,903 thousand for the year ended December 31, 2011 and 2010, and two-month period ended December 31, 2009, respectively. Total fair value of options vested for the year ended December 31, 2011 is $ 1,674 thousand.

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The Company utilizes the Black-Scholes option-pricing model to measure the fair value of each option grant. The following summarizes the grant-date fair value of options granted for the year ended December 31, 2011 and 2010 and assumptions used in the Black-Scholes option-pricing model on a weighted average basis:

	Year Ended December 31, 2011	Year Ended December 31, 2010	Two-months Period Ended December 31, 2009
Grant-date fair value of option	$ 3.27	$ 6.65	$ 1.76
Expected term	2.9 Years	2.9 Years	2.9 Years
Risk-free interest rate	0.5%	0.8%	0.6%
Expected volatility	41.8%	54.4%	59.1%
Expected dividends			

The number and weighted average grant-date fair value of the unvested stock options are as follows:

	Year Ended December 31, 2011		Year Ended December 31, 2010		Two Months Period Ended December 31, 2009	
	Number	Weighted Average Grant-Date Fair Value	Number	Weighted Average Grant-Date Fair Value	Number	Weighted Average Grant-Date Fair Value
Unvested options at the beginning of the period	1,327,825	$ 2.37	1,920,625	$ 1.76		$
Granted options during the period	181,125	3.27	114,250	6.65	1,920,625	1.76
Vested options during the period	(647,306)	2.60	(629,935)	1.30		
Forfeited options during the period	(27,488)	2.85	(77,115)	1.76		
Exercised options during the period	(59,414)	1.97				
Unvested options at the end of the period	774,742	$ 2.43	1,327,825	$ 2.37	1,920,625	$ 1.76

Predecessor Company

The Predecessor Company adopted two equity incentive plans effective October 6, 2004 and March 21, 2005, respectively, which were administered by the compensation committee designated by the board of directors. Employees, consultants and non-employee directors were eligible for the grant of options to purchase the Company s common units or restricted common units subject to terms and conditions determined by the compensation committee. The term of options could in no event exceed ten years from the date of grant.

Unit options were generally granted with exercise prices of no less than the fair market value of the Company s common units on the grant date. Generally, options vested and became exercisable in periodic installments, with 25% of the options vesting on the first anniversary of the grant date and 6.25% of options vesting on the last day of each calendar quarter thereafter. In most cases, the requisite service period, or the period during which a grantee was required to provide service in exchange for option grants, coincided with the vesting period.

Upon the termination of a unit option grantee s employment prior to a public offering, the Company had the right to repurchase all or any of the common units acquired by the grantee upon exercise of any of his or her options for a cash payment equal to the fair market value of such common units on the date of repurchase. The Company s repurchase right would terminate ninety days after the termination date.

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During the three months ended December 31, 2004, restricted units were issued upon the exercise of certain options to purchase restricted common units at the exercise price of $1 per unit. Restricted units issued were subject to restrictions which generally lapsed in installments over a four-year period. Under the terms and conditions of these restricted units, the restricted units were subject to forfeiture upon the termination of the restricted unitholder s employment with the Company. Upon termination, the Company could repurchase all, or any portion of the restricted common units for either $1 per unit (the exercise price) or the fair market value of the restricted common units at the time of repurchase. If the termination was for cause, as defined in the service agreements entered into with each restricted unitholder, the repurchase price per unit would be $1. However, if the termination was for any other reason, then the Company could repurchase all or any portion of the restricted units for which the restricted period had not lapsed as of the date of termination for a repurchase price per unit of $1, and could repurchase all or any portion of the restricted common units for which the restricted period had lapsed as of the date of termination for a repurchase price per unit equal to fair market value. Termination for cause was defined in the service agreements to mean a termination of the restricted unitholder s employment with the Company because of (a) a failure by the restricted unitholder to substantially perform the restricted unitholder s customary duties with the Company in the ordinary course (other than in certain specified circumstances); (b) the restricted unitholder s gross negligence, intentional misconduct or fraud in the performance of his or her employment; (c) the restricted unitholder s indictment for a felony or to a crime involving fraud or dishonesty; (d) a judicial determination that the restricted unitholder committed fraud or dishonesty against any person or entity; or (e) the restricted unitholder s material violation of one or more of the Company s policies applicable to the restricted unitholder s employment as may be in effect from time to time.

The Predecessor Company adopted fresh-start reporting (see Note 3) as of October 25, 2009, at which time it effectively cancelled all unit options under the Predecessor Company s equity incentive plans.

The following summarizes unit option and restricted unit activities for the ten-month period ended October 25, 2009. At the date of grant, all options had an exercise price at or above the fair value of common units:

	Predecessor Company				
	Number of Restricted Units	Number of Options	Weighted Average Exercise Price of Unit Options	Aggregate Intrinsic Value of Unit Options	Weighted Average Remaining Contractual Life of Unit Options
Outstanding at January 1, 2009		4,216,600	$ 1.9		
Granted					
Exercised					
Forfeited		(391,500)	2.5		
Released from restriction					
Outstanding at October 25, 2009 (Predecessor Company)		3,825,100	1.9		6.1 years
Application of fresh-start reporting		(3,825,100)			
Outstanding at October 25, 2009 (Successor Company)					

Total compensation expenses recorded for the unit options pursuant to ASC 718 were $233 thousand for the ten-month period ended October 25, 2009, respectively. As of October 25, 2009, total unrecognized compensation cost related to unvested unit options of $166 thousand, which were expected to be recognized over

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a weighted average future period of 0.7 years, was recognized as reorganization items, net, according to the Company s reorganization. Total fair value of options vested for the ten-month period ended October 25, 2009 was $266 thousand.

The number and weighted average grant-date fair value of the unvested unit options are as follows:

	Ten-Month Period Ended October 25, 2009	
	Number	Weighted Average Grant-Date Fair Value
Unvested options at the beginning of the period	1,131,563	$ 0.65
Granted options during the period		
Vested options during the period	(520,969)	0.51
Forfeited options during the period	(63,156)	0.17
Unvested options at the end of the period	547,438	0.88

20. 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:

	Successor Two-Month Period Ended December 31, 2009	Predecessor Ten-Month Period Ended October 25, 2009
Net sales	$ 947	$ 2,728
Cost of sales	369	3,617
Selling, general and administrative expenses	68	(6,355)
Research and development expenses		
Restructuring and impairment charges		(1,120)
Income tax expenses		
Income from discontinued operations, net of taxes	$ 510	$ 6,586

In prior years the Company had entered into an agreement with a software company to purchase licensed software products (the Purchase Agreement), including the licensed CAD software, for the three-year period from January 31, 2008 to January 30, 2011. The licensed CAD software has been used across all lines of the Company s business for purposes of developing products by the Imaging Solutions business and the Display Solution business and verifying the origin of defects in the manufacturing process of the Semiconductor Manufacturing Services.

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During the third quarter of 2009, due to the discontinuation of its Imaging Solutions business segment and the related declining usage of the licensed CAD software, the Company was able to renegotiate the Purchase Agreement with a software company. Such renegotiation resulted in a reduction of the total fee, which lowered the Company s future scheduled payments. Therefore, the Company adjusted the previously recorded restructuring charges related to this agreement s non-refundable future scheduled payments in the amount of $1,120 thousand. The Company had considered such payments as a contract termination cost. The adjustment of $1,120 thousand represents the amount by which the non-cancellable future payments that were to be incurred by the Imaging Solutions business segment were reduced as a result of the revised payment terms.

The Company renewed the Purchase Agreement exclusively for the use of other business segments and not for the use of the Imaging Solutions business segment and the Company has no continuing involvement in the Imaging Solutions business.

21. Restructuring and Impairment Charges

Successor Company

2011 Restructuring and Impairment Charges

The Company recognized $2,409 thousand of impairment charges for the year ended December 31, 2011 from twelve abandoned in-process research and development projects and one abandoned system project. The Company recognized $90 thousand of impairment charges for the year ended December 31, 2011 from impairment of tangible and intangible assets caused by the closure of the Company s research and development center in Japan.

The Company recognized $1,597 thousand of restructuring charges for the year ended December 31, 2011, which were incurred by the closure of the Company s research and development center in Japan and sales subsidiary in the U.K. The closure process was completed as of December 31, 2011 and all related liabilities are paid. The restructuring charges primarily consist of $1,140 thousand of one-time employee termination benefits, $441 thousand of contract termination cost and other administrative costs such as outside service fees.

2010 Restructuring and Impairment Charges

The Company recognized $2,003 thousand of impairment charges for the year ended December 31, 2010, which consists of $391 thousand from IPR&D annual impairment test performed on September 30, 2010 and $1,612 thousand from twelve abandoned IPR&D projects.

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 $439 thousand of restructuring charges, which consisted of one-time termination benefits and other related costs under ASC 420 for the ten-month period ended October 25, 2009. Actual payments of $439 thousand were charged against the restructuring accruals and there were no remaining restructuring accruals as of December 31, 2009.

22. Foreign Currency Gain (Loss), Net

Net foreign currency gain or loss includes non-cash translation gain or loss associated with intercompany balances.

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23. Income Taxes

The Company s income tax expenses are composed of domestic and foreign income taxes depending on the relevant tax jurisdiction. Domestic refers to the income before taxes, current income taxes and deferred income taxes generated or incurred in the United States, where the Parent resides.

The components of income tax expense are as follows:

	Successor			Predecessor
	Year Ended December 31, 2011	Year Ended December 31, 2010	Two-Month Period Ended December 31, 2009	Ten-Month Period Ended October 25, 2009
Income (loss) from continuing operations before income taxes				
Domestic	$ (8,283)	$ (439)	$ (4)	$ 774,188
Foreign	38,095	82,949	(523)	67,627
	$ 29,812	$ 82,510	$ (527)	$ 841,815
Current income taxes expense (benefits)				
Domestic	$ 54	$ 92	$ 16	$ (143)
Foreign	6,036	6,555	1,244	6,033
Uncertain tax position liability (domestic)	41	121	9	256
Uncertain tax position liability (foreign)	507	251	23	95
	6,638	7,019	1,292	6,241
Deferred income taxes expense				
Domestic				
Foreign	1,381	1,371	654	1,054
	1,381	1,371	654	1,054
Total income tax expense	$ 8,019	$ 8,390	$ 1,946	$ 7,295

Prior to its conversion to a corporation, the Parent was a limited liability company and a non-taxable entity for US tax purpose, and thus the applicable statutory income tax rate was zero. After its conversion to a corporation, the Parent was a taxable entity for US tax purpose, and the applicable statutory income tax rate was 34.0%. MagnaChip Semiconductor, Ltd. (Korea) is the principal operating entity within the consolidated Company. The statutory income tax rate of MagnaChip Semiconductor, Ltd. (Korea), including tax surcharges, applicable to the consolidated Company was approximately 24.2% in 2011, 2010 and 2009.

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The provision for domestic and foreign income taxes incurred is different from the amount calculated by applying the statutory tax rate to the net income before income taxes. The significant items causing this difference are as follows:

	Successor			Predecessor
	Year Ended December 31, 2011	Year Ended December 31, 2010	Two-Month Period Ended December 31, 2009	Ten-Month Period Ended October 25, 2009
Provision computed at statutory rate	$ 6,074	$	$	$
Permanent differences	19,283	9,129	(693)	(19,500)
Change in statutory tax rate	(11,966)	(814)	(265)	118
Adjustment for overseas tax rate	2,248	10,526	3,139	8,192
Change in valuation allowance	(8,168)	(10,823)	(267)	18,134
Uncertain tax positions liability	548	372	32	351
Income tax expenses	$ 8,019	$ 8,390	$ 1,946	$ 7,295

A summary of the composition of net deferred income tax assets (liabilities) at December 31, 2011 and 2010 are as follows:

	Successor	
	December 31, 2011	December 31, 2010
Deferred tax assets		
Inventories	$ 244	$ 2,056
Derivative liabilities	2,361	
Accrued expenses	1,345	1,360
Product warranties	116	72
Other reserves	504	538
Accumulated severance benefits	18,101	15,584
Property, plant and equipments	13,704	11,907
NOL carry-forwards	113,431	129,678
Tax credit	36,508	39,298
Royalty income	3,452	5,154
Foreign currency translation loss	26,720	24,896
Debt issuance costs		145
Others	3,285	3,659
Total deferred tax assets	219,771	234,347
Less: valuation allowance	(209,295)	(219,045)
	10,476	15,302

Deferred tax liabilities				
Derivative assets				1,680
Intangible assets		3,331		5,450
Others		203		207
Total deferred tax liabilities		3,534		7,337
Net deferred tax assets	$	6,942	$	7,965
Reported as				
Current deferred income tax assets (other current assets)	$	3,406	$	1,968
Long-term deferred income tax assets (other non-current assets)	$	3,536	$	5,997

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MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

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Changes in valuation allowance for deferred tax assets for the year ended December 31, 2011 and 2010, the two-month period ended December 31, 2009 and the ten-month period ended October 25, 2009 are as follows:

	Successor			Predecessor
	Year Ended December 31, 2011	Year Ended December 31, 2010	Two-Month Period Ended December 31, 2009	Two-Month Period Ended December 31, 2009
Beginning balance	$ 219,045	$ 225,704	$ 223,367	$ 196,093
Charge to expenses	(8,168)	(10,823)	(409)	17,090
Translation adjustment	(1,582)	4,164	2,746	10,184
Ending balance	$ 209,295	$ 219,045	$ 225,704	$ 223,367

Deferred income tax assets are recognized only to the extent that realization of the related tax benefit is more likely than not. Realization of the future tax benefits related to the deferred tax assets is dependent on many factors, including the Company s ability to generate taxable income within the period during which the temporary differences reverse, the outlook for the economic environment in which the Company operates and the overall future industry outlook. Based on the Company s historical accounting and tax losses, management determined that it was more likely than not that the Company would realize benefits for a foreign subsidiary which has a history of earnings, related to its deferred tax assets in the amount of $6,942 thousand and $7,965 thousand as of December 31, 2011 and 2010, respectively. Accordingly, the Company recorded a valuation allowance of $209,295 thousand and $219,045 thousand on its net deferred tax assets as of December 31, 2011 and 2010, respectively.

At December 31, 2011, the Company had approximately $445,347 thousand of net operating loss carry-forwards available to offset future taxable income. The majority of net operating loss is related to the Company s Korean subsidiary, which expires in varying amounts starting from 2012 to 2019. The Company also has Korean and Dutch tax credit carry-forwards of approximately $9,050 thousand and $27,449 thousand, respectively, as of December 31, 2011. The Korean tax credits expire at various dates starting from 2012 to 2016, and the Dutch tax credits are carried forward to be used for an indefinite period of time.

Uncertainty in Income Taxes

The Company and 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 all years since the beginning of its operation as an independent company in October 2004.

As of December 31, 2011 and 2010, the Company recorded $3,472 thousand and $2,905 thousand of liabilities for unrecognized tax benefits, respectively. For the year ended December 31, 2011, the Company incurred $474 thousand of income tax expenses for uncertain tax positions mainly resulting from withholding taxes related to intercompany balances and recorded $5 thousand of income tax benefits by reversing 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 $78 thousand, $179 thousand, $26 thousand and $206 thousand of interest and penalties as income tax expense for the year ended December 31, 2011, the year ended December 31, 2010,

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the two-month period ended December 31, 2009 and the ten-month period ended October 25, 2009, respectively. Total interest and penalties accrued as of December 31, 2011 and 2010 were $396 thousand and $317 thousand, respectively.

A tabular reconciliation of the total amounts of unrecognized tax benefits at the beginning and end of each period is as follows:

	Successor			Predecessor
	Year Ended December 31, 2011	Year Ended December 31, 2010	Two-Month Period Ended December 31, 2009	Ten-Month Period Ended October 25, 2009
Unrecognized tax benefits, balance at the beginning	$ 8,589	$ 2,979	$ 2,874	$ 2,293
Additions based on tax positions related to the current year	1,944	1,862		33
Additions for tax positions of prior years		4,275	123	635
Reductions for tax positions of prior years			(18)	(88)
Lapse of statute of limitations	(1,228)	(592)		
Translation adjustment	(25)	65		1
Unrecognized tax benefits, balance at the ending	$ 9,280	$ 8,589	$ 2,979	$ 2,874

24. Geographic and Segment Information

The following sets forth information relating to the reportable segments:

	Successor			Predecessor
	Year Ended December 31, 2011	Year Ended December 31, 2010	Two-Month Period Ended December 31, 2009	Ten-Month Period Ended October 25, 2009
Net Sales				
Display Solutions	$ 338,995	$ 305,884	$ 51,044	$ 231,894
Semiconductor Manufacturing Services	338,268	405,197	54,759	206,662
Power Solutions	92,547	57,273	4,746	7,627
All other	3,021	2,051	533	2,801
Total segment net sales	$ 772,831	$ 770,405	$ 111,082	$ 448,984

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(TABULAR DOLLARS IN THOUSANDS, EXCEPT SHARE/UNIT DATA)

The following is a summary of net sales by region, based on the location of the customer:

	Successor			Predecessor
	Year Ended December 31, 2011	Year Ended December 31, 2010	Two-Month Period Ended December 31, 2009	Ten-Month Period Ended October 25, 2009
Korea	$ 397,301	$ 379,057	$ 62,241	$ 244,309
Asia Pacific	218,190	222,060	25,573	116,920
Japan	58,242	57,431	6,477	31,641
North America	81,737	95,166	14,910	48,458
Europe	14,045	14,946	1,881	7,656
Africa	3,316	1,745		
	$ 772,831	$ 770,405	$ 111,082	$ 448,984

Over 99% of the Company s property, plant and equipment are located in Korea as of December 31, 2011.

Net sales from the Company s top ten largest customers accounted for 63%, 63%, 66% and 69% for the year ended December 31, 2011, the year ended December 31, 2010, the two-month period ended December 31, 2009 and the ten-month period ended October 25, 2009, respectively.

The Company recorded $115.6 million, $126.7 million, $25.3 million and $121.5 million of sales to one customer within its Display Solutions segment, which represents greater than 10% of net sales, for the year ended December 31, 2011, the year ended December 31, 2010, the two-month period ended December 31, 2009 and the ten-month period ended October 25, 2009, respectively.

25. Commitments and Contingencies

Operating Agreements with Hynix

In connection with the acquisition of the non-memory semiconductor business from Hynix on October 4, 2004 (the Original Acquisition), the Company entered into several agreements with Hynix, including a non-exclusive cross license that provides the Company with access to certain of Hynix s intellectual property for use in the manufacture and sale of non-memory semiconductor products. The Company also agreed to provide certain utilities and infrastructure support services to Hynix. The obligation to provide certain of these services lasts indefinitely.

Upon the closing of the Original Acquisition, the Company s Korean subsidiary and Hynix also entered into lease agreements under which the Company s Korean subsidiary leases space from Hynix in several buildings, primarily warehouses and utility facilities, in Cheongju, Korea. These leases are generally for an initial term of 20 years plus an indefinite number of renewal terms of 10 years each. Each of the leases is cancelable upon 90 days notice by the lessee. The Company also leases certain land from Hynix located in Cheongju, Korea. The term of this lease is indefinite unless otherwise agreed by the parties, and as long as the buildings remain on the lease site and are owned and used by the Company for permitted uses.

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MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

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(TABULAR DOLLARS IN THOUSANDS, EXCEPT SHARE/UNIT DATA)

Operating Leases

The Company leases land, office space and equipment under various operating lease agreements that expire through 2034. Rental expenses were approximately $8,148 thousand, $7,824 thousand, $2,472 thousand and $11,775 thousand for the year ended December 31, 2011, the year ended December 31, 2010, the two-month period ended December 31, 2009 and the ten-month period ended October 25, 2009, respectively.

As of December 31, 2011, the minimum aggregate rental payments due under non-cancelable lease contracts are as follows:

2012	$ 5,645
2013	2,110
2014	1,957
2015	1,937
2016	1,937
2017 and thereafter	34,417
	$ 48,003

Payments of Guarantee

As of December 31, 2011 and 2010, the Company has provided guarantees for bank loans that employees borrowed to participate in the issuance of new shares of Hynix in 1999. The outstanding balances of guarantees for payments provided by the Company amounted to approximately $166 thousand and $164 thousand as of December 31, 2011 and 2010, respectively.

26. Related Party Transactions

Stockholders

Funds affiliated with Avenue Capital Management II, L.P. are the majority stockholders of the Company, owning 51.3% of the common stock outstanding at December 31, 2011.

Senior Notes

The Company repurchased $35.0 million out of $250.0 million aggregate principal amount of the Company s 10.500% senior notes due April 15, 2018 at a price of 109.0% from funds affiliated with Avenue Capital Management II, L.P. The Company paid the funds affiliated with Avenue Capital Management II, L.P. $2,154 thousand of interest for the year ended December 31, 2011.

Warrants

Funds affiliated with Avenue Capital Management II, L.P. own warrants for the purchase of 556 thousand common shares out of the total warrants for the purchase of 1,875 thousand shares outstanding as of December 31, 2011.

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MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

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(TABULAR DOLLARS IN THOUSANDS, EXCEPT SHARE/UNIT DATA)

Backstop Commitment Agreement

Funds affiliated with Avenue Capital Management II, L.P. were paid an amount in new common stock equal to 10% of the new common stock (the standby commitment fee), or 3,750 thousand shares. The standby commitment fee was deemed fully earned and payable upon the Reorganization Effective Date, regardless of whether the offering was fully subscribed by eligible holders of the second lien noteholder claims.

Loans to employees

Loans to employees as of December 31, 2011 and 2010 were as follows:

	Successor	
	December 31, 2011	December 31, 2010
Short-term loans	$ 20	$ 33
Long-term loans	396	36
Total	$ 416	$ 69

27. Earnings (loss) per Share/Unit

The following table illustrates the computation of basic and diluted earnings (loss) per common share/unit:

	Successor			Predecessor
	Year Ended December 31, 2011	Year Ended December 31, 2010	Two-Month Period Ended December 31, 2009	Ten-Month Period Ended October 25, 2009
Income (loss) from continuing operations	$ 21,793	$ 74,120	$ (2,473)	$ 834,520
Income from discontinued operations, net of taxes			510	6,586
Net income (loss)	$ 21,793	$ 74,120	$ (1,963)	$ 841,106
Dividends accrued on preferred unitholders				(6,317)
Income (loss) from continuing operations attributable to common stock/units	$ 21,793	$ 74,120	$ (2,473)	$ 828,203
Net income (loss) attributable to common stock/units	$ 21,793	$ 74,120	$ (1,963)	$ 834,789
Weighted average common stock/units outstanding				
Basic	38,775,642	37,836,256	37,607,846	52,923,483

Diluted	39,774,898	39,144,287	37,607,846	52,923,483
Earnings (loss) per share/unit from continuing operations				
Basic	$ 0.56	$ 1.96	$ (0.07)	$ 15.65
Diluted	$ 0.55	$ 1.89	$ (0.07)	$ 15.65

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(TABULAR DOLLARS IN THOUSANDS, EXCEPT SHARE/UNIT DATA)

	Successor			Predecessor
	Year Ended December 31, 2011	Year Ended December 31, 2010	Two-Month Period Ended December 31, 2009	Ten-Month Period Ended October 25, 2009
Earnings per share/unit from discontinued operations				
Basic and diluted	$	$	$ 0.02	$ 0.12
Earnings (loss) per share/unit				
Basic	$ 0.56	$ 1.96	$ (0.05)	$ 15.77
Diluted	$ 0.55	$ 1.89	$ (0.05)	$ 15.77

The following outstanding redeemable convertible preferred units, stock/unit options, restricted stock/units and warrants were excluded from the computation of diluted earnings (loss) per share/unit, as they would have an anti-dilutive effect on the calculation:

	Successor			Predecessor
	Year Ended December 31, 2011	Year Ended December 31, 2010	Two-Month Period Ended December 31, 2009	Ten-Month Period Ended October 25, 2009
Redeemable convertible preferred units	NA	NA	NA	93,997
Options	215,750	114,250	1,920,625	3,825,100
Restricted Stock/Units			584,430	
Warrants	1,875,017	1,875,017	1,875,017	

28. Unaudited Quarterly Financial Results

The following tables present selected unaudited Consolidated Statements of Operations for each quarter of the year ended December 31, 2011 and 2010.

	Fiscal Year 2011			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	$ 187,921	$ 203,679	$ 200,405	$ 180,826
Gross profit	56,474	66,182	60,121	51,539
Net income (loss)	$ 22,468	$ 31,630	$ (56,010)	$ 23,705
Earnings (loss) per share:				
Basic	$ 0.59	$ 0.81	$ (1.43)	$ 0.61
Diluted	$ 0.57	$ 0.78	$ (1.43)	$ 0.61
Weighted average common stock outstanding:				
Basic	38,332,750	39,066,303	39,064,071	38,632,975

Diluted	39,570,522	40,294,902	39,064,071	39,110,759

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MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(TABULAR DOLLARS IN THOUSANDS, EXCEPT SHARE/UNIT DATA)

	Fiscal Year 2010			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	$ 179,485	$ 194,700	$ 209,448	$ 186,772
Gross profit	49,358	64,534	69,315	60,351
Net income (loss)	$ 31,101	$ (30,747)	$ 61,495	$ 12,271
Earnings (loss) per share:				
Basic	$ 0.82	$ (0.81)	$ 1.63	$ 0.32
Diluted	$ 0.81	$ (0.81)	$ 1.57	$ 0.31
Weighted average common stock outstanding:				
Basic	37,805,445	37,819,820	37,819,820	37,898,912
Diluted	38,441,991	37,819,820	39,200,585	39,269,465

29. Subsequent Events

On March 2, 2012, the Company s Korean subsidiary, MagnaChip Semiconductor, Ltd., acquired certain assets and liabilities of a privately-held semiconductor company that designs and manufactures IGBT, Fast Recovery Diode and MOSFET modules.

30. Condensed Consolidating Financial Information

The $203.7 million senior notes are guaranteed by the Company and all of its subsidiaries, except for MagnaChip Semiconductor, Ltd. (Korea) and MagnaChip Semiconductor (Shanghai) Company Limited. These guarantees are full and unconditional, subject to certain customary release provisions, as well as joint and several.

The senior notes are structurally subordinated to the creditors of our principal manufacturing and selling subsidiary, MagnaChip Semiconductor, Ltd. (Korea), which accounts for substantially all of our net sales and assets.

Below are condensed consolidating balance sheets as of December 31, 2011 and 2010, condensed consolidating statements of operations and of cash flows for the year ended December 31, 2011, the year ended December 31, 2010, the two-month period ended December 31, 2009 and the ten-month period ended October 25, 2009 of those entities that guarantee the senior notes, those that do not, MagnaChip Semiconductor Corporation, and the co-issuers.

For the purpose of the guarantor financial information, the investments in subsidiaries are accounted for under the equity method.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(TABULAR DOLLARS IN THOUSANDS, EXCEPT SHARE/UNIT DATA)

Condensed Consolidating Balance Sheet

December 31, 2011

(Successor Company)

	MagnaChip Semiconductor Corporation (Parent)	Co-Issuers	Non-Guarantors	Guarantors	Eliminations	Consolidated
Assets						
Current assets						
Cash and cash equivalents	$ 1,677	$ 25,119	$ 127,118	$ 8,197	$	$ 162,111
Restricted cash			6,830			6,830
Accounts receivable, net			126,391	22,179	(22,648)	125,922
Inventories, net			62,836	158	(158)	62,836
Other receivables	1	11,793	7,581	399	(19,518)	256
Prepaid expenses	34	2	8,509	384	(2,897)	6,032
Other current assets	58,636	188,018	11,738	183,685	(426,168)	15,909
Total current assets	60,348	224,932	351,003	215,002	(471,389)	379,896
Property, plant and equipment, net			182,583	80		182,663
Intangible assets, net			16,514	273		16,787
Long-term prepaid expenses			10,963	66	(6,239)	4,790
Investment in subsidiaries	(576,642)	(655,845)		(481,478)	1,713,965	
Long-term intercompany loan	697,125	809,913		660,066	(2,167,104)	
Other non-current assets		6,505	8,170	3,864		18,539
Total Assets	$ 180,831	$ 385,505	$ 569,233	$ 397,873	$ (930,767)	$ 602,675
Liabilities and Stockholders Equity						
Current liabilities						
Accounts payable	$	$	$ 99,560	$ 842	$ (22,554)	$ 77,848
Other accounts payable	13,659	1	13,115	6,195	(19,518)	13,452
Accrued expenses	502	63,033	186,678	207,770	(426,260)	31,723
Current portion of capital lease obligations			2,852			2,852
Other current liabilities		1	11,544	3,117	(2,898)	11,764
Total current liabilities	14,161	63,035	313,749	217,924	(471,230)	137,639
Long-term borrowings		898,514	642,383	827,596	(2,167,104)	201,389
Accrued severance benefits, net			90,611	144		90,755
Other non-current liabilities			3,894	8,567	(6,239)	6,222
Total liabilities	14,161	961,549	1,050,637	1,054,231	(2,644,573)	436,005

Commitments and contingencies						
Stockholders equity						
Common stock	394	136,229	39,005	51,976	(227,210)	394
Additional paid-in capital	98,929	(733,223)	(536,894)	(731,209)	2,001,326	98,929
Retained earnings	93,950	35,760	35,141	37,722	(108,623)	93,950
Treasury stock	(11,793)					(11,793)
Accumulated other comprehensive loss	(14,810)	(14,810)	(18,656)	(14,847)	48,313	(14,810)
Total stockholders equity	166,670	(576,044)	(481,404)	(656,358)	1,713,806	166,670
Total liabilities and stockholders equity	$ 180,831	$ 385,505	$ 569,233	$ 397,873	$ (930,767)	$ 602,675

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(TABULAR DOLLARS IN THOUSANDS, EXCEPT SHARE/UNIT DATA)

Condensed Consolidating Balance Sheet

December 31, 2010

(Successor Company)

	MagnaChip Semiconductor Corporation (Parent)	Co-Issuers	Non-Guarantors	Guarantors	Eliminations	Consolidated
Assets						
Current assets						
Cash and cash equivalents	$ 79	$ 46,595	$ 112,370	$ 13,128	$	$ 172,172
Accounts receivable, net			160,317	60,533	(101,796)	119,054
Inventories, net			68,435	158	(158)	68,435
Other receivables	718	718	23,111	2,969	(24,597)	2,919
Prepaid expenses	52	2	10,957	93	(2,897)	8,207
Short-term intercompany loan		95,000		95,000	(190,000)	
Other current assets	41,363	124,376	9,606	111,628	(268,053)	18,920
Total current assets	42,212	266,691	384,796	283,509	(587,501)	389,707
Property, plant and equipment, net			178,623	389		179,012
Intangible assets, net			27,009	529		27,538
Long-term prepaid expenses			17,371		(9,136)	8,235
Investment in subsidiaries	(567,941)	(641,799)		(475,696)	1,685,436	
Long-term intercompany loan	697,125	792,846		621,000	(2,110,971)	
Other non-current assets		7,819	6,611	6,821	1	21,252
Total Assets	$ 171,396	$ 425,557	$ 614,410	$ 436,552	$ (1,022,171)	$ 625,744
Liabilities and Stockholders Equity						
Current liabilities						
Accounts payable	$	$	$ 118,353	$ 41,634	$ (101,723)	$ 58,264
Other accounts payable	8,334	8,987	15,994	5,927	(24,597)	14,645
Accrued expenses	211	39,887	134,460	126,204	(268,127)	32,635
Short-term intercompany borrowings			95,000	95,000	(190,000)	
Current portion of capital lease obligations			5,373	184		5,557
Other current liabilities			3,815	4,130	(2,897)	5,048
Total current liabilities	8,545	48,874	372,995	273,079	(587,344)	116,149
Long-term borrowings		944,007	621,000	792,846	(2,110,971)	246,882
Long-term obligations under capital lease			2,888	217		3,105
Accrued severance benefits, net			86,511	1,267		87,778
Other non-current liabilities			6,653	11,462	(9,136)	8,979
Total liabilities	8,545	992,881	1,090,047	1,078,871	(2,707,451)	462,893

Commitments and contingencies						
Stockholders equity						
Common stock	384	136,229	39,005	51,976	(227,210)	384
Additional paid-in capital	95,585	(734,101)	(537,608)	(732,266)	2,003,975	95,585
Retained earnings	72,157	35,823	31,799	43,269	(110,891)	72,157
Accumulated other comprehensive loss	(5,275)	(5,275)	(8,833)	(5,298)	19,406	(5,275)
Total stockholders equity	162,851	(567,324)	(475,637)	(642,319)	1,685,280	162,851
Total liabilities and stockholders equity	$ 171,396	$ 425,557	$ 614,410	$ 436,552	$ (1,022,171)	$ 625,744

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(TABULAR DOLLARS IN THOUSANDS, EXCEPT SHARE/UNIT DATA)

Condensed Consolidating Statement of Operations

For the year ended December 31, 2011

(Successor Company)

	MagnaChip Semiconductor Corporation (Parent)	Co-Issuers	Non-Guarantors	Guarantors	Eliminations	Consolidated
Net sales	$	$	$ 772,834	$ 24,885	$ (24,888)	$ 772,831
Cost of sales			538,507	2,429	(2,421)	538,515
Gross profit			234,327	22,456	(22,467)	234,316
Selling, general and administrative expenses	2,317	624	67,386	12,193	(14,153)	68,367
Research and development expenses			80,024	5,057	(8,314)	76,767
Restructuring and impairment charges			2,409	1,687		4,096
Special expense for IPO Incentive			11,355	791		12,146
Operating income (loss) from continuing operations	(2,317)	(624)	73,153	2,728		72,940
Other income (expenses)	24,334	5,947	(69,296)	(4,113)		(43,128)
Income (loss) from continuing operations before income taxes, equity in earnings (loss) of related equity investment	22,017	5,323	3,857	(1,385)		29,812
Income tax expenses			516	7,503		8,019
Income (loss) before equity in earnings (loss) of related investment	22,017	5,323	3,341	(8,888)		21,793
Earnings (loss) of related investment	(224)	(5,387)		3,342	2,269	
Net income (loss)	$ 21,793	(64)	$ 3,341	$ (5,546)	$ 2,269	$ 21,793

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MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(TABULAR DOLLARS IN THOUSANDS, EXCEPT SHARE/UNIT DATA)

Condensed Consolidating Statement of Operations

For the year ended December 31, 2010

(Successor Company)

	MagnaChip Semiconductor Corporation (Parent)	Co-Issuers	Non-Guarantors	Guarantors	Eliminations	Consolidated
Net sales	$	$	$ 765,157	$ 31,957	$ (26,709)	$ 770,405
Cost of sales			523,214	7,816	(4,183)	526,847
Gross profit			241,943	24,141	(22,526)	243,558
Selling, general and administrative expenses	1,661	1,862	63,795	10,619	(11,297)	66,640
Research and development expenses			87,497	7,996	(11,969)	83,524
Restructuring and impairment charges			2,003			2,003
Operating income (loss) from continuing operations	(1,661)	(1,862)	88,648	5,526	740	91,391
Other income (expenses)	38,039	(6,166)	(45,191)	4,437		(8,881)
Income (loss) from continuing operations before income taxes, equity in earnings of related equity investment	36,378	(8,028)	43,457	9,963	740	82,510
Income tax expenses			22	8,368		8,390
Income (loss) before equity in earnings of related investment	36,378	(8,028)	43,435	1,595	740	74,120
Earnings of related investment	37,742	45,722		43,730	(127,194)	
Net income	$ 74,120	$ 37,694	$ 43,435	$ 45,325	$ (126,454)	$ 74,120

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MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(TABULAR DOLLARS IN THOUSANDS, EXCEPT SHARE/UNIT DATA)

Condensed Consolidating Statement of Operations

For the two-month period ended December 31, 2009

(Successor Company)

	MagnaChip Semiconductor Corporation (Parent)	Co-Issuers	Non-Guarantors	Guarantors	Eliminations	Consolidated
Net sales	$	$	$ 112,693	$ 32,955	$ (34,566)	$ 111,082
Cost of sales			93,020	27,429	(30,041)	90,408
Gross profit			19,673	5,526	(4,525)	20,674
Selling, general and administrative expenses	(69)	23	13,659	1,969	(1,042)	14,540
Research and development expenses			16,048	1,710	(3,017)	14,741
Operating income (loss) from continuing operations	69	(23)	(10,034)	1,847	(466)	(8,607)
Other income (expenses)		377	(2,118)	9,821		8,080
Income (loss) from continuing operations before income taxes, equity in loss of related equity investment	69	354	(12,152)	11,668	(466)	(527)
Income tax expenses (benefits)			(6)	1,952		1,946
Income (loss) before equity in loss of related investment	69	354	(12,146)	9,716	(466)	(2,473)
Loss of related investment	(2,032)	(2,225)		(11,772)	16,029	
Loss from continuing operations	(1,963)	(1,871)	(12,146)	(2,056)	15,563	(2,473)
Income from discontinued operation, net of taxes			510			510
Net loss	$ (1,963)	$ (1,871)	$ (11,636)	$ (2,056)	$ 15,563	$ (1,963)

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MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(TABULAR DOLLARS IN THOUSANDS, EXCEPT SHARE/UNIT DATA)

Condensed Consolidating Statement of Operations

For the ten-month period ended October 25, 2009

(Predecessor Company)

	MagnaChip Semiconductor LLC (Parent)	Co-Issuers	Non-Guarantors	Guarantors	Eliminations	Consolidated
Net sales	$	$	$ 434,896	$ 156,813	$ (142,725)	$ 448,984
Cost of sales			309,151	131,162	(129,174)	311,139
Gross profit			125,745	25,651	(13,551)	137,845
Selling, general and administrative expenses	2,771	333	47,103	10,235	(4,154)	56,288
Research and development expenses			56,597	9,596	(10,045)	56,148
Restructuring and impairment charges				439		439
Operating income (loss) from continuing operations	(2,771)	(333)	22,045	5,381	648	24,970
Other income (expenses)	779,304	33,193	20,978	(16,630)		816,845
Income (loss) from continuing operations before income taxes, equity in earnings of related equity investment	776,533	32,860	43,023	(11,249)	648	841,815
Income tax expenses (benefits)			(8)	7,303		7,295
Income (loss) before equity in earnings of related investment	776,533	32,860	43,031	(18,552)	648	834,520
Earnings of related investment	64,573	35,283		51,604	(151,460)	
Income from continuing operations	841,106	68,143	43,031	33,052	(150,812)	834,520
Income (loss) from discontinued operation, net of taxes			8,586	(1,557)	(443)	6,586
Net income	$ 841,106	$ 68,143	$ 51,617	$ 31,495	$ (151,255)	$ 841,106
Dividends accrued on preferred units	6,317					6,317

Income from continuing operations attributable to common units		834,789		68,143		43,031		33,052		(150,812)		828,203
Net income attributable to common units	$	834,789	$	68,143	$	51,617	$	31,495	$	(151,255)	$	834,789

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MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(TABULAR DOLLARS IN THOUSANDS, EXCEPT SHARE/UNIT DATA)

Condensed Consolidating Statement of Cash Flows

For the year ended December 31, 2011

(Successor Company)

	MagnaChip Semiconductor Corporation (Parent)	Co-Issuers	Non-Guarantors	Guarantors	Eliminations	Consolidated
Cash flow from operating activities						
Net income	$ 21,793	(64)	$ 3,341	$ (5,546)	$ 2,269	$ 21,793
Adjustments to reconcile net loss to net cash provided by (used in) operating activities						
Depreciation and amortization			50,972	252		51,224
Provision for severance benefits			14,468	230		14,698
Amortization of debt issuance costs and original issue discount		970				970
Loss (gain) on foreign currency translation, net	1,815	2,499	13,463	(2,637)		15,140
Gain on disposal of property, plant and equipment, net			(122)			(122)
Loss on disposal of intangible assets, net			25			25
Restructuring and impairment charges			2,409	90		2,499
Stock-based compensation	202		1,541	342		2,085
Equity in loss (gain) of related investment	224	5,387		(3,342)	(2,269)	
Other		5,460	2,225	(85)	(459)	7,141
Changes in operating assets and liabilities						
Accounts receivable			34,310	38,604	(79,148)	(6,234)
Inventories			4,274			4,274
Other receivables	717	(11,075)	15,551	2,542	(5,078)	2,657
Other current assets	(25,896)	(63,640)	(4,623)	(72,251)	161,329	(5,081)
Deferred tax assets				1,412		1,412
Accounts payable			(19,501)	(41,584)	79,169	18,084
Other accounts payable	5,285	(9,119)	(8,533)	398	5,078	(6,891)
Accrued expenses	(85)	24,795	48,246	82,969	(161,502)	(5,577)
Other current liabilities			(2,047)	(1,003)		(3,050)
Payment of severance benefits			(9,054)	(1,424)		(10,478)
Other			3,931	(4,465)	496	(38)
Net cash provided by (used in) operating activities	4,055	(44,787)	150,876	(5,498)	(115)	104,531
Cash flows from investing activities						
Decrease (increase) in restricted cash			(7,199)			(7,199)
Proceeds from disposal of plant, property and equipment			218	1		219
Purchases of plant, property and equipment			(48,136)	(37)		(48,173)
Payment for intellectual property registration			(696)			(696)
Collection of long-term intercompany loan		35,152		35,151	(70,303)	
Collection of short-term intercompany loan		38,466		38,466	(76,932)	
Collection of guarantee deposits			1,023	521		1,544
Payment of guarantee deposits			(2,484)	2		(2,482)
Other			(360)	(11)		(371)

Net cash provided by (used in) investing activities		73,618	(57,634)	74,093	(147,235)	(57,158)
Cash flow from financing activities						
Proceeds from issuance of common stock	9,336					9,336
Repayment of long-term intercompany borrowings			(75,642)	(73,618)	149,260	
Repurchase of senior notes		(50,307)				(50,307)
Repayment of obligations under capital lease			(6,088)	(224)		(6,312)
Acquisition of treasury stock	(11,793)					(11,793)
Net cash provided by (used in) financing activities	(2,457)	(50,307)	(81,730)	(73,842)	149,260	(59,076)
Effect of exchanges rate on cash and cash equivalents			3,236	316	(1,910)	1,642
Net increase (decrease) in cash and cash equivalents	1,598	(21,476)	14,748	(4,931)		(10,061)
Cash and cash equivalents						
Beginning of the year	79	46,595	112,370	13,128		172,172
End of the year	$ 1,677	$ 25,119	$ 127,118	$ 8,197	$	$ 162,111

MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(TABULAR DOLLARS IN THOUSANDS, EXCEPT SHARE/UNIT DATA)

Condensed Consolidating Statement of Cash Flows

For the year ended December 31, 2010

(Successor Company)

	MagnaChip Semiconductor Corporation (Parent)	Co-Issuers	Non-Guarantors	Guarantors	Eliminations	Consolidated
Cash flow from operating activities						
Net income	$ 74,120	$ 37,694	$ 43,435	$ 45,325	$ (126,454)	$ 74,120
Adjustments to reconcile net loss to net cash provided by (used in) operating activities						
Depreciation and amortization			58,107	288		58,395
Provision for severance benefits			19,375	309		19,684
Amortization of debt issuance costs and original issue discount		925				925
Loss (gain) on foreign currency translation, net		13,508	(18,656)	(11,936)		(17,084)
Loss on disposal of property, plant and equipment, net			38	1		39
Loss on disposal of intangible assets, net			13			13
Restructuring and impairment charges			2,003			2,003
Stock-based compensation	563		3,983	693		5,239
Cash used for reorganization items			51	1,522		1,573
Earnings of related investment	(37,742)	(45,722)		(43,730)	127,194	
Other	12	(11)	1,479	729	1,968	4,177
Changes in operating assets and liabilities						
Accounts receivable			(34,166)	6,139	(13,343)	(41,370)
Inventories			(6,720)	4,315	(767)	(3,172)
Other receivables	(8)		(16,298)	512	16,091	297
Deferred tax assets				1,543		1,543
Accounts payable			7,282	(25,671)	13,340	(5,049)
Other accounts payable	7,858	3,436	10,368	2,912	(16,091)	8,483
Accrued expenses	111	38,753	39,041	52,356	(126,269)	3,992
Long term other payable				(400)	(2,019)	(2,419)
Other current assets	(41,235)	(51,681)	8,564	(38,923)	126,272	2,997
Other current liabilities			687	275		962
Payment of severance benefits			(6,428)	(245)		(6,673)
Other			3,041	(3,751)		(710)
Net cash provided by (used in) operating activities before reorganization items	3,679	(3,098)	115,199	(7,737)	(78)	107,965
Cash used for reorganization items			(51)	(1,522)		(1,573)
Net cash provided by (used in) operating activities	3,679	(3,098)	115,148	(9,259)	(78)	106,392
Cash flows from investing activities						
Proceeds from disposal of plant, property and equipment			8	2		10

Purchases of plant, property and equipment			(43,554)	(62)		(43,616)
Payment for intellectual property registration			(553)			(553)
Decrease in short-term financial instruments				329		329
Decrease in guarantee deposits			219	979		1,198
Collection of long-term intercompany loans	126,953				(126,953)	
Other			(1,015)	(81)		(1,096)
Net cash provided by (used in) investing activities	126,953		(44,895)	1,167	(126,953)	(43,728)
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)
Repayment of obligations under capital lease			(3,294)	(182)		(3,476)
Distribution to stockholders	(130,689)					(130,689)
Net cash provided by (used in) financing activities	(130,689)	49,669	(3,294)	(182)	126,953	42,457
Effect of exchanges rate on cash and cash equivalents			(32)	2,080	78	2,126
Net increase (decrease) in cash and cash equivalents	(57)	46,571	66,927	(6,194)		107,247
Cash and cash equivalents						
Beginning of the year	136	24	45,443	19,322		64,925
End of the year	$ 79	$ 46,595	$ 112,370	$ 13,128	$	$ 172,172

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MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(TABULAR DOLLARS IN THOUSANDS, EXCEPT SHARE/UNIT DATA)

Condensed Consolidating Statement of Cash Flows

For the two-month period ended December 31, 2009

(Successor Company)

	MagnaChip Semiconductor Corporation (Parent)	Co-Issuers	Non-Guarantors	Guarantors	Eliminations	Consolidated
Cash flow from operating activities						
Net loss	$ (1,963)	$ (1,871)	$ (11,636)	$ (2,056)	$ 15,563	$ (1,963)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities						
Depreciation and amortization			11,168	50		11,218
Provision for severance benefits			1,781	70		1,851
Loss (gain) on foreign currency translation, net		8,976	(10,293)	(8,760)		(10,077)
Loss on disposal of property, plant and equipment, net			17			17
Loss on disposal of intangible assets, net			5			5
Stock-based compensation			1,993	206		2,199
Cash used for reorganization items	1,500	448	1,406	909		4,263
Loss of related investment	2,032	2,225		11,772	(16,029)	
Other			(815)	148		(667)
Changes in operating assets and liabilities						
Accounts receivable			4,307	6,290	5,846	16,443
Inventories			9,413	(3,113)	439	6,739
Other receivables			1,880	(338)	213	1,755
Deferred tax assets				664	14	678
Accounts payable			(12,074)	3,750	(5,820)	(14,144)
Other accounts payable	(129)	2	(10,860)	(1,311)	(213)	(12,511)
Accrued expenses	(1,847)	337	5,058	9,806	(19,041)	(5,687)
Long term other payable				(48)	(829)	(877)
Other current assets	13	(9,678)	3,787	(9,308)	18,378	3,192
Other current liabilities			405	(704)	1,487	1,188
Payment of severance benefits			(1,331)	(58)		(1,389)
Other			(127)	(4)	6	(125)
Net cash provided by (used in) operating activities before reorganization items	(394)	439	(5,916)	7,965	14	2,108
Cash used for reorganization items	(1,500)	(448)	(1,406)	(909)		(4,263)
Net cash provided by (used in) operating activities	(1,894)	(9)	(7,322)	7,056	14	(2,155)
Cash flows from investing activities						
Proceeds from disposal of plant, property and equipment			37			37
Purchases of plant, property and equipment			(1,254)	(1)	(3)	(1,258)
Payment for intellectual property registration			(70)			(70)
Purchase of short-term financial instruments				(329)		(329)

Other			20	3		23
Net cash used in investing activities			(1,267)	(327)	(3)	(1,597)
Cash flow from financing activities						
Net cash provided by (used in) financing activities						
Effect of exchanges rate on cash and cash equivalents			1,261	(152)	(11)	1,098
Net increase (decrease) in cash and cash equivalents	(1,894)	(9)	(7,328)	6,577		(2,654)
Cash and cash equivalents						
Beginning of the period	2,030	33	52,771	12,745		67,579
End of the period	$ 136	$ 24	$ 45,443	$ 19,322	$	$ 64,925

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MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(TABULAR DOLLARS IN THOUSANDS, EXCEPT SHARE/UNIT DATA)

Condensed Consolidating Statement of Cash Flows

For the ten-month period ended October 25, 2009

(Predecessor Company)

	MagnaChip Semiconductor LLC (Parent)	Co-Issuers	Non-Guarantors	Guarantors	Eliminations	Consolidated
Cash flow from operating activities						
Net income	$ 841,106	$ 68,143	$ 51,617	$ 31,495	$ (151,255)	$ 841,106
Adjustments to reconcile net income to net cash provided by (used in) operating activities						
Depreciation and amortization			36,274	1,981		38,255
Provision for severance benefits			8,512	323		8,835
Amortization of debt issuance costs		685	151			836
Loss (gain) on foreign currency translation, net		(14,384)	(43,701)	13,861		(44,224)
Loss (gain) on disposal of property, plant and equipment, net			(235)	330		95
Gain on disposal of intangible assets, net			(9,230)			(9,230)
Restructuring and impairment charges			(1,120)			(1,120)
Unit-based compensation			210	23		233
Cash used for reorganization items		16		1,060		1,076
Noncash reorganization items	(779,304)	508	(31,026)	4,173		(805,649)
Earnings of related investment	(64,573)	(35,283)		(51,604)	151,460	
Other			1,877	845		2,722
Changes in operating assets and liabilities						
Accounts receivable			(34,658)	(9,735)	31,463	(12,930)
Inventories			(2,421)	1,479	(221)	(1,163)
Other receivables			(1,174)	2,894	(1,689)	31
Deferred tax assets				1,054		1,054
Accounts payable			22,745	14,984	(31,413)	6,316
Other accounts payable	2,622	260	(17,303)	1,280	1,689	(11,452)
Accrued expenses	(27)	22,395	45,513	41,324	(80,910)	28,295
Long term other payable			626	412	(531)	507
Other current assets	(40)	(42,252)	11,842	(39,412)	75,758	5,896
Other current liabilities		(95)	725	(6,098)	5,507	39
Payment of severance benefits			(4,010)	(310)		(4,320)
Other			(520)	1,098	(1,094)	(516)
Net cash provided by (used in) operating activities before reorganization items	(216)	(7)	34,694	11,457	(1,236)	44,692
Cash used for reorganization items		(16)		(1,060)		(1,076)
Net cash provided by (used in) operating activities	(216)	(23)	34,694	10,397	(1,236)	43,616
Cash flows from investing activities						
Proceeds from disposal of plant, property and equipment			290	299	(260)	329

Proceeds from disposal of intangible assets			9,374	1		9,375
Purchases of plant, property and equipment			(7,753)	(20)	260	(7,513)
Payment for intellectual property registration			(366)			(366)
Decrease in restricted cash			11,409			11,409
Other			(282)	1,949	(1,763)	(96)
Net cash provided by investing activities			12,672	2,229	(1,763)	13,138
Cash flow from financing activities						
Issuance of new common units pursuant to the reorganization plan	35,280					35,280
Repayment of short-term borrowings	(33,250)					(33,250)
Repayment of long-term borrowings				(1,763)	1,763	
Net cash provided by (used in) financing activities	2,030			(1,763)	1,763	2,030
Effect of exchange rates on cash and cash equivalents			5,200	(1,678)	1,236	4,758
Net increase (decrease) in cash and cash equivalents	1,814	(23)	52,566	9,185		63,542
Cash and cash equivalents						
Beginning of the period	216	56	205	3,560		4,037
End of the period	$ 2,030	$ 33	$ 52,771	$ 12,745	$	$ 67,579

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

None.

Item 9A. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Management s evaluation of the effectiveness of the Company s disclosure controls and procedures as defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act, was performed under the supervision and with the participation of our senior management, including our Chief Executive Officer, or our CEO, and our Chief Financial Officer, or our CFO. The purpose of disclosure controls and procedures is to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to our management, including our CEO and CFO, to allow timely decisions regarding required disclosure. Management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Based upon that evaluation, our CEO and CFO have concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Report.

(b) Management s Annual Report on Internal Control Over Financial Reporting

The Company s management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Our internal control over financial reporting is a process designed under the supervision of our chief executive officer and our chief financial officer, and effected by our board of directors, management and other personnel, 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.

Management conducted an evaluation of the effectiveness of the Company s internal control over financial reporting as of December 31, 2011, based on the criteria set forth in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the Company s assessment, management has concluded that its internal control over financial reporting was effective as of December 31, 2011 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with U.S. generally accepted accounting principles. The Company s independent registered public accounting firm, Samil PricewaterhouseCoopers, has issued an audit report on the Company s internal control over financial reporting which appears in Item 8 of this Annual Report on Form 10-K.

(c) Inherent Limitations on Effectiveness of Controls

Our management, including our CEO and CFO, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed or operated, can provide only reasonable, not absolute, assurance the objectives of the control system are met. Further, the design of a control system must reflect the fact there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons,

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by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to errors or fraud may occur and not be detected. Our disclosure controls and procedures are designed to provide a reasonable level of assurance that their objectives are achieved.

(d) Changes in Internal Control Over Financial Reporting

There were no changes in the Company s internal control over financial reporting during the fourth quarter of fiscal year 2011, which were identified in connection with management s evaluation required by paragraph (d) of rules 13a-15 and 15d-15 under the Exchange Act, that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

Item 9B. Other Information

None.

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PART III

Item 10. ***Directors, 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 December 31, 2011:

Name	Age	Position
Sang Park	64	Chairman of the Board of Directors and Chief Executive Officer
Tae Young Hwang	55	Chief Operating Officer and President
Brent Rowe	50	Executive Vice President, Worldwide Sales
Heung Kyu Kim	48	Executive Vice President and General Manager, Power Solutions Division
Margaret Sakai	54	Executive Vice President and Chief Financial Officer
Tae Jong Lee	49	Executive Vice President and General Manager, Corporate Engineering
John McFarland	45	Executive Vice President, General Counsel and Secretary
Michael Elkins	43	Director
Randal Klein	46	Director
Ilbok Lee	66	Director
Brian Mulhern	37	Director
R. Douglas Norby	76	Director
Nader Tavakoli	53	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, Executive Vice President, Worldwide Sales. Mr. Rowe became our Executive Vice President, Worldwide Sales in December 2010, after serving as our Senior Vice President, Worldwide Sales since 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.

Heung Kyu Kim, Executive Vice President and General Manager, Power Solutions Division. Mr. Kim became our Executive Vice President and General Manager, Power Solutions Division, in December 2010, after serving as our Senior Vice President and General Manager, Corporate Engineering since 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.

Margaret Sakai, Executive Vice President and Chief Financial Officer. Ms. Sakai became our Executive Vice President and Chief Financial Officer in April 2011, after serving as Senior Vice President and Chief Financial Officer since April 2009 and our Senior Vice President, Finance, since November 2006. 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.

Tae Jong Lee, Executive Vice President and General Manager, Corporate Engineering. Mr. Lee became our Executive Vice President and General Manager, Corporate Engineering, in December 2011, after serving successively as Senior Vice President and Vice President and General Manager, Corporate Engineering, since 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, Executive Vice President, General Counsel and Secretary. Mr. McFarland became our Executive Vice President, General Counsel and Secretary in April 2011 after serving successively as Senior Vice President and 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, Milacron LLC, a plastics-processing technologies and industrial fluids supplier, since April 2009, Ion Media Networks, Inc., a broadcast television station group, since December 2009 and American Media, Inc., a media brands and magazine publishing company, since December 2010. Mr. Elkins serves on the board of directors of each of these companies, all 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 MagnaChip Semiconductor LLC s

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Fifth Amended and Restated Limited Liability Company Operating Agreement, which we refer to as our pre-conversion Company s Operating Agreement. Our board of directors has concluded that Mr. Elkins should serve on the board based upon his more than 15 years of investment portfolio management experience, including over 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 pre-conversion Company s Operating Agreement. Our board of directors has concluded that Mr. Klein should serve on the board based upon his 17 years of experience as a financial advisor and investment manager.

Ilbok Lee, Director. Dr. Lee became our director in August 2011. Dr. Lee has been President and Chief Executive Officer of Silego Technology, Inc., a semiconductor company, since its inception in October 2001. From April 1999 to September 2001, Dr. Lee served as Senior Vice President and General Manager of the Timing Division at Cypress Semiconductor Corp., a public semiconductor company, and from May 1992 to March 1999 served as President and Chief Executive Officer of IC Works, Inc., a semiconductor company he co-founded that was acquired by Cypress in 2001. Dr. Lee co-founded Samsung Semiconductor, Inc. (U.S.A.) in July 1983 and served in various positions at the company, including President and Chief Executive Officer, until May 1992. Prior to Samsung, Dr. Lee served in various technical and managerial positions at Intel and National Semiconductor. Dr. Lee served as a member of board of directors for Sierra Monolithic, a privately held semiconductor company, from 2002 through 2009. Dr. Lee received a Ph.D. and M.S.E.E. from the University of Minnesota and a B.S.E.E. from Seoul National University. Our board of directors has concluded that Dr. Lee should serve on the board based upon his extensive experience in the semiconductor industry.

Brian Mulhern, Director. Mr. Mulhern became our director in August 2011. Mr. Mulhern joined Avenue, our affiliate, in 2004 and is currently a Senior Vice President at Avenue focused on identifying, analyzing and modeling investment opportunities for the Avenue U.S. strategy, primarily focused in the telecom, media and technology industries. Prior to joining Avenue, Mr. Mulhern was a Senior Vice President at Citadel Investment Group based in Chicago and London, focused on the analysis, negotiation and management of privately structured debt, equity and equity-linked investments. Previously, he was an analyst in Merrill Lynch s merger & acquisition group and a consultant at Booz, Allen & Hamilton. Mr. Mulhern received a B.A. in Economics from the University of Notre Dame. Our board of directors has concluded that Mr. Mulhern should serve on the board based upon his board based upon his 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

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to December 2000. Mr. Norby is a director of Alexion Pharmaceuticals, Inc., STATS ChipPAC Ltd. Ikanos Communications, Inc., and Invensas, Inc. Mr. Norby was a director of Intellon Corporation from May 2007 to December 2009. 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.

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, Heung Kyu Kim, Margaret Sakai, Tae Jong Lee and John McFarland were each officers during our Chapter 11 reorganization proceedings. R. Douglas Norby was one of our directors until October 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 bylaws provide that our board of directors consists of seven members. Mr. Park, our Chief Executive Officer, is the Chairman of our board of directors. In addition to serving on our board, Messrs. Elkins, Klein, and Mulhern are employees of our largest equity holder, which consists of funds affiliated with Avenue Capital Management II, L.P. As of December 31, 2011, Avenue beneficially owned approximately 20,789,539 shares, or 54.0%, of our outstanding common stock, including shares of common stock issuable upon the exercise of outstanding options and warrants that are exercisable within sixty days of December 31, 2011. Accordingly, Avenue will be able to elect a majority of our board as long as Avenue continues to hold or control a majority of our outstanding shares. Messrs. Lee, Norby and Tavakoli serve as independent directors elected by a majority vote of the directors then in office at the time of their election.

A majority of our board is not currently independent as defined under SEC and NYSE rules. We are considered a controlled company for purposes of the NYSE listing requirements because Avenue holds more than 50% of the voting power for the election of directors. As such, we are exempt from the NYSE corporate governance requirements that our board of directors meet the standards of independence established by those corporate governance requirements and exempt from the requirements that we have separate Compensation and Nominating and Corporate Governance Committees made up entirely of directors who meet such independence standards. We have chosen to utilize the exemption available for controlled companies.

Our board of directors is divided into three classes with staggered three-year terms as follows:

Class I directors are Messrs. Lee and Norby, and their terms will expire at the annual general meeting of stockholders to be held in 2012;

Class II directors are Messrs. Klein and Tavakoli, and their terms will expire at the annual general meeting of stockholders to be held in 2013; and

Class III directors are Messrs. Elkins, Mulhern and Park, and their terms will expire at the annual general meeting of stockholders to be held in 2014.

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Section 16(a) Beneficial Ownership Reporting Compliance

Compliance with Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company s executive officers and directors, and persons who own more than 10% of a registered class of its equity securities, to file reports of ownership and changes in ownership with the SEC. Officers, directors, and greater than 10% shareholders are required by SEC rules to furnish the Company with copies of all Section 16(a) forms they file.

Based solely on a review of the copies of such forms furnished to the Company, the Company believes that during 2011 all Section 16(a) filing requirements applicable to its officers, directors and greater than 10% shareholders were in compliance with Section 16(a) other than with respect to a late Form 4 for one stock option grant transaction by Ilbok Lee in 2011.

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 Exchange Act. 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. In addition, our board has determined that the simultaneous service by Mr. Norby on the audit committees of three other public companies does not impair his ability to effectively serve on our audit committee. The board has determined that Mr. Klein is not an independent director. In accordance with applicable rules of the NYSE, 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. 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. Our audit committee charter is available on our website at www.magnachip.com.

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. Our compensation committee consists of Messrs. Elkins, Lee and Tavakoli. Our board has determined that Messrs. Lee and Tavakoli are independent under NYSE and SEC rules. In making this determination, our board of directors considered the relationships that Messrs.Lee 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. Elkins is not an independent director. Because we are a controlled company, we rely on exemptions from the provisions of Section 303A of the NYSE that would otherwise require the Company to have a Compensation Committee composed entirely of independent directors. Our compensation committee charter is available on our website at www.magnachip.com.

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. Our nominating and corporate governance committee consists of Messrs. Lee, Mulhern, and Norby. Our board has determined that Messrs. Lee and Norby are independent

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under NYSE and SEC rules. In making this determination, our board of directors considered the relationships that Messrs. Lee and Norby 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. Mulhern is not an independent director. Because we are a controlled company, we rely on exemptions from the provisions of Section 303A of the NYSE that would otherwise require the Company to have a Nominating and Governance Committee composed entirely of independent directors. Our nominating and governance committee charter is available on our website at www.magnachip.com.

There has been no material change to the procedures by which our equity holders may recommend nominees to our board of directors.

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 Executive 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. We will disclose any amendment to the provisions of our Code of Business Conduct and Ethics on our website.

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 stockholders.

Item 11. ***Executive Compensation***

Compensation Discussion and Analysis

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 2011, 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, Executive Vice President, Worldwide Sales;
- Margaret Sakai, Executive Vice President and Chief Financial Officer; and
- John McFarland, Executive 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 stockholders by rewarding performance that exceeds specific annual, long-term and strategic goals that are intended to improve stockholder 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.

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. We did not retain a compensation consultant in 2009, 2010 or 2011, and we have not retained a compensation consultant for 2012.

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.

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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.

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 2011 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

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 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. 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.

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Historically, our select peer group has included other major Korea-based semiconductor companies, including Fairchild Korea, Dongbu Hitek, ChipPac Korea, Hynix Semiconductor, ASE Korea and Amkor Technology Korea. In addition, we also reviewed compensation data from Mercer 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.

ABB Korea
Accenture Korea
Agilent Technologies Korea
Alcatel-Lucent Korea
AMD Korea
Analog Devices Korea
APC Korea
Apple Computer
Applied Materials Korea
Arrow Electronics Korea
ASML Korea
Asurion Korea
AT&T Global Networks Services Korea
Autodesk Korea
Autoliv Korea
Avnet Korea
Axcelis Technologies Korea
Barco
Blizzard Entertainment
BMC Software Korea
Bosch Electrical Drives
Bosch Rexroth Korea
Broadcom

Dimension Data Korea
Domino Korea
Edwards Korea
Electronic Arts Korea
EMC Computer Systems Korea
Entegris Korea
Equant Korea
Fairchild Korea Semiconductor
Freescale Semiconductor
FSI Korea
Fuji Xerox Korea
Fujitsu Korea
Google
Harman International Korea
Hewlett-Packard Korea
IBM Korea
IDC Korea
Infineon Technologies Korea
Intel Korea
Invensys Korea
Johnson Controls Korea
Juniper Networks Korea
KLA-Tencor Korea

Microsoft Korea
Motorola Mobility Korea
Nanometrics Korea
National Computer Systems Korea
National Semiconductor
NDS Korea
Network Appliance
Nokia Korea
Nokia Siemens Network Korea
Novellus Korea
NXP Semiconductors Korea
Obigo
On Semiconductor
Oracle Korea
Orbotech Korea
Pacnet Korea
Panduit
Polycom Korea
PTC Korea
Qualcomm Korea
Real Networks Asia Pacific
Red Hat
Renesas Electronics Korea

Schneider Electric Korea
Sensata Technologies
Siemens Industry Software
SIMMTECH
SingTel Korea
SITA Korea
Skyworks Solutions Korea
Sony Ericsson Mobile Communications International
Sony Korea
STATS ChipPAC Korea
ST-Ericsson Korea
STMicroelectronics
Sybase Korea
Symantec Korea
Synaptics International Korea
Teleca Korea
Tellabs Korea
Timken Korea
Toshiba Electronics Korea
Trend Micro Korea
Tyco Electronics AMP Korea
Varian Korea
Veeco Korea

BT Global Services Korea	Kulicke and Soffa	Research In Motion Korea	Verizon Business
CA Technologies	Lam Research Korea	Robert Bosch Korea	VMware Korea
Cadence Korea	Leica Microsystems	Rockwell Automation Korea	Western Digital Korea
CDNetworks	Lenovo	Rogers Korea	Westinghouse Korea
Cisco Systems Korea	Lexmark International	ROHM Semiconductor Korea Corporation	Xilinx Korea
CSC Computer Sciences	LG-Ericsson	SAP Korea	Yahoo Korea
Cymer Korea	Marvell Semiconductor Korea	SAS Korea	
Cypress Semiconductor Korea	MEMC Korea Company	Schaeffler Korea	
Dassault Systems Korea	Micron Semiconductor Korea		
Dell International			
Delphi Korea Corporation			

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The Committee makes annual determinations regarding cash incentive compensation based on our annual operating plan, which we adopt in the December preceding each fiscal year. The determination takes into account our expected performance in the coming fiscal year. The Committee makes all equity compensation decisions for our officers based on existing compensation arrangements for other executives at our company with the same level of responsibility and based on a review of our 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 our 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 cash incentive payments or equity compensation grants from time to time during the year in its discretion.

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. Base salary adjustments generally take effect in the middle of our fiscal year.

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 slightly above, Mr. Hwang and Mr. McFarland are slightly below, and Ms. Sakai and Mr. Rowe are 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 the 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 for 2009 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 in 2009, as described in more detail below. No additional special discretionary incentives were granted to our named executive officers in 2010 or 2011.

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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. The Committee administers the Profit Sharing Plan.

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 stockholder value, then sets a percentage such that the forecasted Adjusted EBITDA growth and gross margin is within that range. See Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Additional Business Metrics Evaluated by Management 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. Executives with target annual incentive opportunities set forth in their employment agreements will be eligible to receive the target percentage set forth in such agreements. In the event we exceed the Base Target, we may pay to our named executive officers (together with all of our eligible employees) their pro rata portion of an additional Profit Share of 25% of our annual consolidated Adjusted EBITDA in excess of the Base Target. For 2011, Mr. Park received a Profit Share of $210,634, Mr. Hwang received a Profit Share of $101,482, Mr. Rowe received a Profit Share of $93,248, Ms. Sakai received a Profit Share of $89,748 and Mr. McFarland received a Profit Share of $51,158.

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.

For 2010, the implementation of the Profit Sharing Plan was modified pursuant to the terms of the Profit Sharing Plan 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 were set. We made Profit Share payments in the first normal pay period following the conclusion of each of our first two fiscal quarters. The total Profit Share payable for meeting the Base Target for 2010 was capped for each named executive officer at his or her respective percentage of annual base salary, such that the amount of any Profit Share paid for 2010 performance after the end of 2010 was offset by the Profit Share paid during 2010 for reaching each of the quarterly targets. In addition, for 2010, our named executive officers were not eligible to earn the additional Profit Share of 25% of our annual consolidated Adjusted EBITDA in excess of the Base Target even though we exceeded the Base Target. As a result, for 2010, our named executive officers were only entitled to receive a cash incentive equal to the Profit Share paid to each named executive officer disclosed in the Summary Compensation Table in the column labeled Bonus. In 2010, under the Profit Sharing Plan, we paid bonuses to our named executive officers in April and July 2010 and in January 2011.

For 2011, the implementation of the Profit Sharing Plan was modified pursuant to the terms of the Profit Sharing Plan to set an interim target that was paid during the first normal pay period following the conclusion of our second fiscal quarter of 2011. In addition, our named executive officers (and all of our other employees) were not eligible to earn the additional Profit Share of 25% of our annual consolidated Adjusted EBITDA in excess of the Base Target even if we exceeded the Base Target or the interim target. In 2011, under the Profit Sharing Plan, we paid bonuses to our named executive officers in July 2011 but not in January 2012.

Equity Compensation

In addition to cash incentives, we offer equity incentives as a way to enhance the link between the creation of stockholder 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 were 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 2011 Equity Incentive Plan, which replaced the 2009 Common Unit Plan immediately following our corporate 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. Stock options granted under the 2011 Equity Incentive Plan generally vest over three years following grant, with thirty-four percent of the common stock vesting and becoming exercisable on the first anniversary of grant date and eight or nine percent of the common stock subject to the options vesting on completion of each three-month period thereafter. 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 2011 Equity Incentive Plan. 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

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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 vested and became exercisable on the first anniversary of grant date, with eight or nine percent of the common units subject to the options vesting on completion of each three-month period thereafter. 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. 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 Item 11. Executive Compensation-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. No equity incentives were granted to our named executive officers in 2010 or 2011.

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 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, perquisite are determined based upon what the Committee considers to be the most customary perquisites offered by our 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.

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Mr. Park, Ms. Sakai and Mr. McFarland were expatriates during all of 2011 and received expatriate benefits commensurate with market practice in Korea. These benefits, 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.

Summary Compensation Table

The following table sets forth certain information concerning the compensation earned during the years ended December 31, 2009, 2010 and 2011, of our named executive officers:

Name and Principal Position	Year	Salary ($)(1)	Bonus ($)	Stock Awards ($)(2)	Option Awards ($)(2)	Change in Pension Value and Non-qualified Deferred Compen-sation Earnings ($)(3)	All Other Compensation ($)	Total ($)
Sang Park	2011	553,444	211,124				507,782(4)	1,272,350
Chairman and Chief Executive	2010	482,164	543,926				325,576(5)	1,351,666
Officer	2009	979,611(6)	11,262	1,769,600	488,070		314,785(7)	3,563,328
Tae Young Hwang	2011	315,471	101,482			35,964	34,062(8)	486,979
Chief Operating Officer and	2010	275,129	249,706			105,346	26,422(9)	656,604
President	2009	189,748	106,544	663,600	305,044	119,541	10,884(10)	1,395,361
Brent Rowe	2011	309,086	93,248				11,590(11)	413,924
Executive Vice President,	2010	261,499	223,200				12,914(12)	497,614
Worldwide Sales	2009	398,554(13)	70,500	442,400	183,026		12,231(14)	1,106,711
Margaret Sakai	2011	316,327	90,190			46,384	345,301(15)	798,202
Executive Vice President and	2010	272,072	157,052			28,152	250,039(16)	707,314
Chief Financial Officer	2009	238,347	46,549	265,440	73,211	12,143	163,668(17)	799,358
John McFarland	2011	245,310	51,158			39,434	96,019(18)	431,920
Executive Vice President,	2010	201,774	116,847			27,344	72,531(19)	418,495
General Counsel and Secretary	2009	172,229	44,764	265,440	48,807	14,369	99,615(20)	645,224

Note: Amounts set forth in the above table that were originally paid in Korean won from January 1 to October 25, 2009 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.

(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 the 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 Stock/Unit-Based Compensation, and Note 19 Equity Incentive Plans, to the MagnaChip Semiconductor Corporation audited consolidated financial statements for the years ended 2011 and 2010, the two months ended December 31, 2009, and the ten months ended October 25, 2009.

(3) Consists of statutory severance accrued during the years ended December 31, 2011 and December 31, 2010, the two months ended December 31, 2009, and the ten months ended October 25, 2009, as applicable. See the section subtitled Compensation Discussion and Analysis for a description of the statutory severance benefit.

(4) Includes the following personal benefits paid to Mr. Park: (a) $282,724, which is the annual aggregate monthly pro rata amount of prepaid housing expenses for Mr. Park s housing lease; (b) $34,147 for insurance premiums; (c) $61,055 for other personal benefits (including reimbursement of the use of a car, home leave flights, living expenses, personal tax advisory expenses, and other personal benefits); (d) $107,650 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 2010; and (e) $22,207 for reimbursement of Korean tax.

(5) Includes the following personal benefits paid to Mr. Park: (a) $142,390, which is the annual aggregate monthly pro rata amount of prepaid housing expenses for Mr. Park s housing lease; (b) $29,716 for insurance premiums; (c) $44,485 for other personal benefits (including reimbursement of the use of a car, home leave flights, living expenses, personal tax advisory expenses, and other personal benefits); (d) $83,042 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 2009; and (e) $25,944 for reimbursement of Korean tax.

(6) 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.

(7) 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); (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.

(8) Includes the following personal benefits paid to Mr. Hwang: (a) $14,095 for reimbursement of the use of a car; (b) $5,023 for other personal benefits; and (c) $14,944 for insurance premiums.

(9) Includes the following personal benefits paid to Mr. Hwang: (a) $12,875 for reimbursement of the use of a car; (b) $2,103 for other personal benefits; and (c) $11,444 for insurance premiums.

(10) 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.

(11) Includes the following personal benefits paid to Mr. Rowe: $11,590 for insurance premiums.

(12) Includes the following personal benefits paid to Mr. Rowe: $12,914 for insurance premiums.

(13) 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.

(14) 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.

(15) Includes the following personal benefits paid to Ms. Sakai: (a) $116,842, which is the annual aggregate monthly pro rata amount of prepaid housing expenses for Ms. Sakai s housing lease; (b) $51,534 for reimbursement of tuition expenses for Ms. Sakai s children; (c) $30,895 for Ms. Sakai s home leave flights; (d) $35,870 for insurance premiums; (e) $21,691 for other personal benefits (including reimbursement of the use of a car, living expenses, personal tax advisory expenses, and other personal benefits); (f) $67,728 of reimbursement for the difference between the actual tax Ms. Sakai already paid and the hypothetical tax she had to pay for the fiscal year 2010; and (g) $20,741 for reimbursement of Korean tax.

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(16) Includes the following personal benefits paid to Ms. Sakai: (a) $93,364, which is the annual aggregate monthly pro rata amount of prepaid housing expenses for Ms. Sakai s housing lease; (b) $53,945 for reimbursement of tuition expenses for Ms. Sakai s children; (c) $26,019 for Ms. Sakai s home leave flights; (d) $30,016 for insurance premiums; (e) $16,478 for other personal benefits (including reimbursement of the use of a car, living expenses, personal tax advisory expenses, and other personal benefits); (f) $18,305 of reimbursement for the difference between the actual tax Ms. Sakai already paid and the hypothetical tax she had to pay for the fiscal year 2009; and (g) $11,911 for reimbursement of Korean tax.

(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 Mr. McFarland: (a) $29,945 for reimbursement of tuition expenses for Mr. McFarland s child; (b) $23,212 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 2010; (c) $26,014 for insurance premiums; (d) $8,726 for other personal benefits (including reimbursement of the use of a car, personal tax advisory expenses and other personal benefits); and (e) $8,122 for reimbursement of Korean tax.

(19) Includes the following personal benefits paid to Mr. McFarland: (a) $25,920 for reimbursement of tuition expenses for Mr. McFarland s child; (b) $7,418 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 2009; (c) $21,830 for insurance premiums; (d) $8,204 for other personal benefits (including reimbursement of the use of a car, personal tax advisory expenses and other personal benefits); and (e) $9,159 for reimbursement of Korean tax.

(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.

Grants of Plan-Based Awards

No stock or option awards nor any other plan-based awards were granted to our named executive officers during the year ended December 31, 2011.

Outstanding Equity Awards at Fiscal Year End 2011

	Option Awards				Stock Awards	
Name	**Number of Securities Underlying Unexercised Options (#) Exercisable**	**Number of Securities Underlying Unexercised Options (#) Unexercisable(1)**	**Option Exercise Price ($)(2)**	**Option Expiration Date**	**Number of Shares or Units of Stock That Have Not Vested (#)**	**Market Value of Shares or Units of Stock That Have Not Vested ($)**
Sang Park	187,600	92,400	5.88	12/8/2019		
Tae Young Hwang	117,250	57,750	5.88	12/8/2019		
Brent Rowe	70,350	34,650	5.88	12/8/2019		
Margaret Sakai	28,140	13,860	5.88	12/8/2019		
John McFarland	18,760	9,240	5.88	12/8/2019		

(1) An installment of 34% of the shares of common stock subject to the options vested and became 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 periods of three months, an additional 9% of the options vest upon the completion of the next period of three months, and an additional 8% of the options vest upon the completion of each of the next three periods of three months.

(2) The option exercise price at the time of grant was $1.16 per common unit, or $9.28 after giving effect to the corporate conversion. On April 19, 2010, we made a distribution to our unitholders of $0.4254 per common unit, which resulted in the option exercise price being reduced to $0.7346 per common unit, or $5.88 after giving effect to the corporate conversion.

Option Exercises and Stock Vested at Fiscal Year End 2011

Name	Number of Shares Acquired on Vesting (#)(1)	Value Realized on Vesting ($)(2)
Sang Park	92,400	712,404
Tae Young Hwang	34,650	267,152
Brent Rowe	23,100	178,101
Margaret Sakai	13,860	106,861
John McFarland	13,860	106,861

(1) The restrictions on the restricted stock awards granted in December 2009 lapsed on December 8, 2011 as to the remaining 33% of the total number of restricted shares of common stock originally awarded.

(2) The reported value represents the product of multiplying the number of vested shares by $7.71, the value of our shares as of the date of vesting determined on an as converted basis.

MagnaChip Semiconductor LLC 2009 Common Unit Plan

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 provided 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 were 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 available for grant under the 2009 Plan was 30,000,000. Units subject to awards that expired, were forfeited or otherwise terminated would have been available again for grant under the 2009 Plan.

In connection with our corporate conversion, MagnaChip Semiconductor Corporation assumed the rights and obligations of MagnaChip Semiconductor LLC under the 2009 Plan and converted 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 of eight-for-one on substantially equivalent terms and conditions. Based upon MagnaChip Semiconductor LLC s common units outstanding as of December 31, 2010, and after giving effect to the corporate conversion, there would have been outstanding under the 2009 Plan options to purchase 1,957,760 shares of common stock, at a weighted average exercise price of $6.33 per share. The 2009 Plan terminated immediately following our corporate conversion, and no additional options or other equity awards may be granted under the 2009 Plan. 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 determined in its discretion the persons to whom and the times at which awards were granted, the sizes of such awards, and all of their terms and conditions. All awards were 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 a 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.

2011 Equity Incentive Plan

Our 2011 Equity Incentive Plan, or the 2011 Plan, was approved by our board of directors and our stockholders in March 2010. We amended and restated the 2011 Plan in February 2011, and our stockholders approved the amendment in March 2011 to reflect that it became effective in 2011 upon our corporate conversion. 890,300 shares of our common stock, or the total number of shares of common stock (as adjusted by the conversion ratio in the corporate conversion) remaining available for grant upon its termination immediately following the corporate conversion, were authorized and reserved.

As of December 31, 2011, there were outstanding under the 2011 Plan options to purchase 2,008,960 shares of common stock, at a weighted average exercise price of $6.79 per share. As of December 31, 2011, 752,564 shares of our common stock remained available for issuance under the 2011 Plan. This reserve automatically increased on January 1, 2012 and will automatically increase each subsequent anniversary through 2021, 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 2011 Plan will also be increased from time to time by up to that number of shares of common stock 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 2011 Plan, subject to a cap of 1,412,352 shares. Appropriate adjustments will be made in the number of authorized shares and other numerical limits in the 2011 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 2011 Plan which expire, are repurchased, or are cancelled or forfeited will again become available for issuance under the 2011 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 2011 Plan.

Awards may be granted under the 2011 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 2011 Plan is administered by the Committee. Subject to the provisions of the 2011 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 2011 Plan and awards granted under it.

In the event of a change in control as described in the 2011 Plan, the acquiring or successor entity may assume or continue all or any awards outstanding under the 2011 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 2011 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.

2011 Employee Stock Purchase Plan

Our 2011 Employee Stock Purchase Plan, or the Purchase Plan, was approved by our board of directors in March 2010. Our board of directors amended and restated the Purchase Plan in February 2011 to reflect that the Purchase Plan would become effective in 2011 upon the commencement of the MagnaChip Corporation IPO. The Purchase Plan was approved by our stockholders in March 2011 and became effective upon the commencement of the MagnaChip Corporation IPO. 789,890 shares were initially authorized and reserved for sale under the Purchase Plan.

As of December 31, 2011, 789,304 shares of our common stock remained 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 2012 and continuing through and including January 1, 2021 equal to the lesser of (i) 1% of our then issued and outstanding shares of common stock on the immediately preceding December 31, (ii) 789,980 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. 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

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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 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 Executive 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 and Executive Vice President and Chief Financial Officer in 2011. 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 Executive 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.

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 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, 2011. The disclosure in the following table does not include:

any accrued benefits that were earned and payable as of December 31, 2011, including any short-term cash incentive amounts earned by, or any discretionary bonus amounts payable to, the executive officer for 2011 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)	587,000	507,782(5)	147,840	1,242,622
	(b)(4)	1,174,000	1,015,565(6)	147,840	2,337,405
	(c)			147,840	147,840
Tae Young Hwang	(c)	836,666(7)		92,400	929,066
Brent Rowe	(a)	155,900			155,900
	(c)			55,440	55,440
Margaret Sakai	(a)	165,375(8)	172,650(9)		338,025
	(c)			22,176	22,176
John McFarland	(a)	147,354(10)	48,009(11)		195,363
	(c)			14,784	14,784

(a) Termination without cause in absence of change in control.
(b) Termination without cause within nine months following a change in control.
(c) Change in control.
(1) Represents cash severance payments payable to our named executive officers pursuant to (i) our employment agreements with them or, if greater, (iii) cash severance payments payable pursuant 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 Item 11. Executive Compensation Compensation Discussion and Analysis Perquisites and Other Benefits for additional information.
(2) Calculated assuming the continuation of benefits for the applicable period at the same dollar value of 2011 benefits.
(3) Reflects the aggregate value of the accelerated vesting of the named executive officer s unvested options. With respect to options issued under our 2009 Plan outstanding as of December 31, 2011, the amounts were calculated by multiplying (i) the number of outstanding options to purchase common stock subject to award vesting on December 31, 2011 by (ii) the difference of the fair market value of our common stock as of December 30, 2011, and the option exercise price for such options of $5.88 per share.

(4) Reflected benefits are also payable in connection with Mr. Park s resignation for good reason. See Item 11. Executive Compensation 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) Mr. Hwang is entitled to statutory severance benefits in the amount of $836,666. 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 fifteen years of service, or $447,654 in aggregate.

(8) Ms. Sakai is entitled to statutory severance benefits in the amount of $142,254. The amount owed to Ms. Sakai under her employment agreement, $165,375, will be reduced by the amount she is statutorily entitled to receive.

(9) 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.

(10) Mr. McFarland is entitled to statutory severance benefits in the amount of $147,354. The amount owed to Mr. McFarland under his service agreement, $123,666, will be reduced by the amount he is statutorily entitled to receive

(11) 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, 2011

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, 2011, 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	16(1)	836,666	
Margaret Sakai	Statutory Severance	5	142,254	
John McFarland	Statutory Severance	7	147,354	

(1) Mr. Hwang accrued severance for his fifteen 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

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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 fifteen years of service, or $447,654 in aggregate.

Nonqualified Deferred Compensation

We do not maintain any nonqualified deferred compensation plans.

Director Compensation for the Fiscal Year Ended December 31, 2011

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)(1)	Option Awards ($)(1)	Total ($)
Michael Elkins(2)				
Randal Klein(2)				
Ilbok Lee	18,493(3)		67,000(4)	85,493
Brian Mulhern(2)				
R. Douglas Norby	55,000(5)			55,000
Nader Tavakoli	50,000(6)			50,000
Gidu Shroff(7)	100,000(8)			100,000
Steven Tan(9)				

(1) Represents grant date fair value determined in accordance with FASB ASC 718. See Note 4 Summary of Significant Accounting Policies Stock/Unit-Based Compensation, and Note 19 Equity Incentive Plans, to the MagnaChip Semiconductor Corporation audited consolidated financial statements for the year ended December 31, 2011. As of December 31, 2011, Mr. Norby and Mr. Tavakoli each held options to purchase 25,000 shares of our common stock, of which 14,750 shares subject to these options have vested. None of the remaining non-employee directors held any outstanding stock or option awards.

(2) This director did not receive any compensation in 2011.

(3) Consists of an annual retainer of $50,000 paid to independent non-employee directors pursuant to our director compensation policy adopted in March 2010, prorated for 2011 from Mr. Lee s August 19, 2011, appointment date.

(4) Consists of an option grant to an independent non-employee director to purchase 25,000 shares of common stock issued in August 2011 under the 2011 Plan at an exercise price of $9.51 per share pursuant to our director compensation policy adopted in March 2010.

(5) Consists of an annual retainer of $50,000 paid to independent non-employee directors plus an additional $5,000 paid for serving as the chairman of our audit committee pursuant to our director compensation policy adopted in March 2010.

(6) Consists of an annual retainer of $50,000 paid to independent non-employee directors pursuant to our director compensation policy adopted in March 2010.

(7) Mr. Shroff resigned as director on August 16, 2011. The unvested portion of the option granted to Mr. Shroff on March 11, 2010, was accelerated such that the option became fully vested as of August 16, 2011.

(8) Consists of an annual retainer of $50,000 paid to independent non-employee directors pursuant to our director compensation policy adopted in March 2010, and a $50,000 separation payment.

(9) Mr. Tan resigned as director on August 10, 2011. Mr. Tan did not receive any compensation in 2011.

Further Information Regarding Director Compensation Table

Under our director compensation policy, each of our independent 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 independent director an option to purchase 25,000 shares of common stock upon election to

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the board of directors, and additional shares from time to time at the discretion of the board of directors, all of which shall generally vest on the same terms as option grants to our other grantees. Pursuant to this policy, in August 2011, we issued options to purchase 25,000 shares of common stock to Ilbok Lee pursuant to the 2011 Plan at an exercise price of $9.51 per share.

Compensation Committee Interlocks and Insider Participation

None of the members of the Compensation Committee has been an officer or employee of our company during the last fiscal year. During 2011, decisions regarding executive officer compensation were made by our Compensation Committee. Mr. Park participated in deliberations of our Compensation Committee 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.

Compensation Committee Report

The Committee has reviewed and discussed the Compensation Discussion and Analysis as set forth above under Executive Compensation Compensation Discussion and Analysis with our management and, based on such review and discussion, has recommended to our board of directors that the Compensation Discussion and Analysis be included in this Annual Report on Form 10-K.

The foregoing report was submitted by the Committee and shall not be deemed to be soliciting material or to be filed with the SEC or subject to Regulation 14A promulgated by the SEC or Section 18 of the Exchange Act.

Members of the Committee:

Michael Elkins

Ilbok Lee

Nader Tavakoli

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

Equity Compensation Plan Table

The following table provides information as of December 31, 2011, regarding securities authorized for issuance under the Company s compensation plans. The Company s compensation plans include the 2009 Plan, the 2011 Plan, and the Purchase Plan. The numbers in the following table do not include options or shares that may be added to the issuable amounts under the 2011 Plan or the Purchase Plan, respectively, after December 31, 2011, in accordance with the terms of the respective plans.

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options	(b) Weighted-average exercise price of outstanding options	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	2,008,960(1)	$ 6.79(1)	1,541,868(2)
Equity compensation plans not approved by security holders			
Total:	2,008,960	$ 6.79	1,541,868

(1) The number of securities to be issued upon the exercise of outstanding options and the weighted average exercise price do not include any purchase right under the Purchase Plan or the purchase price for the purchase of shares under the Purchase Plan.

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(2) Includes 789,304 shares of common stock that remain available as of December 31, 2011, for future issuance under the Purchase Plan.
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 provided 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 were granted under the 2009 Plan. The 2009 Plan terminated immediately following our corporate conversion, and no additional options or other equity awards may be granted under the 2009 Plan. However, options granted under the 2009 Plan prior to its termination will remain outstanding until they are either exercised or expire.

The 2011 Plan was approved by our board of directors and our stockholders in March 2010. We amended and restated the 2011 Plan in February 2011, and our stockholders approved the amendment in March 2011 to reflect that it became effective in 2011 upon our corporate conversion. 890,300 shares of our common stock, or the total number of shares of common stock (as adjusted by the conversion ratio in the corporate conversion) remaining available for grant upon its termination immediately following the corporate conversion, were authorized and reserved.

As of December 31, 2011, there were outstanding under the 2011 Plan options to purchase 2,008,960 shares of common stock, at a weighted average exercise price of $6.79 per share. As of December 31, 2011, 752,564 shares of our common stock remained available for issuance under the 2011 Plan. This reserve automatically increased on January 1, 2012 and will automatically increase each subsequent anniversary through 2021, 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 2011 Plan will also be increased from time to time by up to that number of shares of common stock 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 2011 Plan, subject to a cap of 1,412,352 shares. Appropriate adjustments will be made in the number of authorized shares and other numerical limits in the 2011 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 2011 Plan which expire, are repurchased, or are cancelled or forfeited will again become available for issuance under the 2011 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 2011 Plan.

For more information on our 2011 Equity Incentive Plan, see Item 11. Executive Compensation Grants of Plan-Based Awards 2011 Equity Incentive Plan.

The Purchase Plan was approved by our board of directors in March 2010. Our board of directors amended and restated the Purchase Plan in February 2011 to reflect that the Purchase Plan would become effective in 2011 upon the commencement of the MagnaChip Corporation IPO. The Purchase Plan was approved by our stockholders in March 2011 and became effective upon the commencement of the MagnaChip Corporation IPO. 789,890 shares were initially authorized and reserved for sale under the Purchase Plan.

As of December 31, 2011, 789,304 shares of our common stock remained 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 2012 and continuing through and including January 1, 2021 equal to the lesser of (i) 1% of our then issued and outstanding shares of common stock on the immediately preceding December 31, (ii) 789,980 shares, or (iii) a number of shares as our board

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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.

For more information on our 2011 Employee Stock Purchase Plan, see Item 11. Executive Compensation Grants of Plan-Based Awards 2011 Employee Stock Purchase Plan.

Security Ownership of Certain Beneficial Owners and Management

The following table sets forth information regarding the beneficial ownership of our outstanding common stock for: (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. The following tables list the number of shares and percentage of shares beneficially owned based on 37,907,575 shares of common stock outstanding as of December 31, 2011.

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 shares of common stock 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 Stockholders		
Funds managed by Avenue Capital Management II, L.P.(2)	20,789,539	54.0%
Funds and accounts managed by Southpaw Asset Management LP(3)	2,341,320	6.2%
AllianceBernstein L.P.(4)	2,078,763	5.5%
Directors and Executive Officers		
Sang Park(5)	467,600	1.2%
Tae Young Hwang(6)	222,250	*
Brent Rowe(7)	140,350	*
Margaret Sakai(8)	70,140	*
John McFarland(9)	60,760	*
Michael Elkins(10)		
Randal Klein(10)		
Brian Mulhern(10)		
Nader Tavakoli(11)	33,500	*
R. Douglas Norby(12)	14,750	*
Ilbok Lee		
Directors and Officers as a group (13 persons)(13)	1,145,080	3.0%

* Less than one percent

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(1) Includes any outstanding common stock held and, to the extent applicable, shares issuable upon the exercise or conversion of any securities that are exercisable or convertible within 60 days of December 31, 2011.

(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. (Avenue-CDP), (vii) Avenue Global Opportunities Fund GenPar, LLC (Avenue Global GenPar), the general partner of Avenue-CDP, (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 Management), the investment manager to Avenue Investments, Avenue International Master, Avenue-CDP, Avenue Fund IV and Avenue Fund V (collectively, the Avenue Funds), (xv) Avenue Capital Management II GenPar, LLC (Avenue Capital Management GenPar), the general partner of Avenue Capital Management, and (xvi) Marc Lasry, the managing member of Avenue International GenPar, Avenue Partners, Avenue Global GenPar, GL IV, GL V and Avenue Capital Management GenPar.

The Avenue Capital Group beneficially owns 20,789,539 shares of common stock, which includes 555,961 shares of common stock 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 stock and warrants held by them. Avenue International, Avenue International GenPar, Avenue Partners, Avenue Global GenPar, Avenue Capital IV, GL IV, Avenue Capital V, GL V, Avenue Capital Management, Avenue Capital Management GenPar and Marc Lasry have the shared power to vote and dispose of the common stock and warrants 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 8,457,136 shares of common stock, or 22.2%, which represents 8,184,421 shares of common stock and 272,715 shares of common stock 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 Management, its investment manager; Avenue Capital Management GenPar, the general partner of Avenue Capital Management; and Mr. Lasry, the managing member of Avenue Capital Management 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 6,685,868 shares of common stock, or 17.6%, which represents 6,526,958 shares of common stock and 158,910 shares of common stock 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 Management, its investment manager; Avenue Capital Management GenPar, the general partner of Avenue Capital Management; and Mr. Lasry, the managing member of Avenue Capital Management 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 3,372,721 shares of common stock, or 8.9%, which represents 3,302,273 shares of common stock and 70,448 shares of common stock 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;

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Avenue International GenPar, its general partner; Avenue Partners, the sole shareholder of Avenue International GenPar; Avenue Capital Management, its investment manager; Avenue Capital Management GenPar, the general partner of Avenue Capital Management; and Mr. Lasry, the managing member of Avenue Capital Management GenPar, Avenue Partners and 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.

Avenue-CDP beneficially owns 1,149,367 shares of common stock, or 3.0%, which represents 1,119,052 shares of common stock and 30,315 shares of common stock issuable upon the exercise of warrants held by Avenue-CDP. The securities owned by Avenue-CDP may also be deemed to be beneficially owned by Avenue Global GenPar, its general partner; Avenue Capital Management, its investment manager; Avenue Capital Management GenPar, the general partner of Avenue Capital Management; and Mr. Lasry, the managing member of Avenue Capital Management GenPar and Avenue Global GenPar; all of whom disclaim any beneficial ownership except to the extent of their respective pecuniary interest. For further information regarding Avenue-CDP, please see above.

Avenue Investments beneficially owns 1,124,447 shares of common stock, or 3.0%, which represents 1,100,874 shares of common stock and 23,573 shares of common stock 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 Management, its investment manager; Avenue Capital Management GenPar, the general partner of Avenue Capital Management; and Mr. Lasry, the managing member of Avenue Capital Management 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 2,341,320 shares of common stock 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 common stock deemed 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 and managers of Southpaw Management.

Southpaw Credit Opportunity Master Fund, L.P. (Southpaw Master Fund) beneficially owns 2,272,649 shares of common stock; a separate managed account managed by Southpaw Management (Managed Account 1) owns 12,041 shares of common stock; and another separate managed account managed by Southpaw Management (Managed Account 2 and collectively with Managed Account 1, the Managed Accounts) owns 56,630 shares of common stock. The securities owned by Southpaw Master Fund and the Managed Accounts may also be deemed beneficially owned by Southpaw Management, in its capacity as the investment manager of Southpaw Master Fund and the Managed Accounts. The shares 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.

The business address of each of Southpaw Master Fund, Southpaw Management, 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 Holdings, or Messrs. Wyman and Golden hold common stock for their personal accounts, and each reports beneficial ownership of common stock 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 common stock held by Southpaw Master Fund and the Managed Accounts.

(4) Represents 2,078,763 shares of common stock acquired solely for investment purposes on behalf of client discretionary investment advisory accounts. AllianceBernstein is deemed to have sole voting power with respect to 1,826,776 shares of common stock and sole dispositive power with respect to 1,994,572 shares of common stock. AllianceBernstein is deemed to have shared dispositive power as to 84,191 shares of common stock with its majority owner AXA Financial, Inc. and its indirect majority owner AXA SA. The address for AllianceBernstein is 1345 Avenue of the Americas, New York, NY 10105.

(5) Represents 280,000 shares of common stock and 187,600 options to purchase shares of common stock that are vested and exercisable as of February 29, 2012.
(6) Represents 105,000 shares of common stock and 117,250 options to purchase shares of common stock that are vested and exercisable as of February 29, 2012.
(7) Represents 70,000 shares of common stock and 70,350 options to purchase shares of common stock that are vested and exercisable as of February 29, 2012.
(8) Represents 42,000 shares of common stock and 28,140 options to purchase shares of common stock that are vested and exercisable as of February 29, 2012.
(9) Represents 42,000 shares of common stock and 18,760 options to purchase shares of common stock that are vested and exercisable as of February 29, 2012.
(10) The address for Messrs. Elkins, Klein and Mulhern is 399 Park Avenue, 6th Floor, New York, NY 10022.
(11) Represents 18,750 shares of common stock and 14,750 options to purchase shares of common stock that are vested and exercisable as of February 29, 2012.
(12) Represents 14,750 options to purchase shares of common stock that are vested and exercisable as of February 29, 2012.
(13) Represents 613,750 shares of common stock and 531,330 options to purchase shares of common stock that are vested and exercisable as of February 29, 2012.

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

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 effect on our business and results of operations, (iii) the adverse effect 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

In April 2010, we sold $250 million of 10.5% senior notes due 2018 order to repay our senior secured credit facility. Funds affiliated with Avenue, our majority stockholder and an affiliate, which is also an affiliate of our directors Messrs. Elkins, Klein and Mulhern, purchased $35 million in principal amount of our senior notes due 2018. On May 16, 2011, two of the Company s wholly owned subsidiaries, MagnaChip Semiconductor S.A. and MagnaChip Semiconductor Finance Company, repurchased $35 million of the senior notes from funds affiliated with Avenue Capital Management II, L.P. The Company paid the funds affiliated with Avenue Capital Management II, L.P. $2.2 million in interest for the year ended December 31, 2011.

Registration Rights Agreement

On November 9, 2009, we entered into a 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 stock.

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, dated as of April 9, 2010, with the initial purchasers of the senior notes pursuant to which we agreed to file, and thereafter filed, with the SEC a registration statement covering a registered exchange offer by us for the senior notes and a shelf registration statement covering resales of senior notes by certain holders, including Avenue.

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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 1,875,017 shares of common stock pursuant to the reorganization proceedings to certain former creditors, which included Avenue.

Director Independence

For purposes of determining whether our directors are independent, we apply the definition of director independence as set forth under the New York Stock Exchange and SEC rules, including additional rules applicable to any committee assignments of the directors. The following directors marked with an asterisk (*) are independent under the Rules with respect to our Board of Directors and each board committee. For a discussion of the exemptions from the independence standards on which we currently are relying as a new public company, see Item 10. Directors, Executive Officers and Corporate Governance Audit Committee, and for the exemptions on which we currently are relying as a controlled company, see Item 10. Directors, Executive Officers and Corporate Governance Board Compensation.

Board of Directors	Audit Committee	Compensation Committee	Nominating and Governance Committee
Sang Park	R. Douglas Norby*	Michael Elkins	Ilbok Lee*
Michael Elkins	Randal Klein	Ilbok Lee*	Brian Mulhern*
Randal Klein	Nader Tavakoli*	Nader Tavakoli*	R. Douglas Norby*
Ilbok Lee *			
Brian Mulhern			
R. Douglas Norby*			
Nader Tavakoli*			

Item 14. Principal Accounting Fees and Services.

Audit fees and services

The following table presents fees for professional services rendered by Samil PricewaterhouseCoopers and its affiliates for the years ended December 31, 2011 and 2010.

	Year Ended December 31	
	2011	2010
	(in millions of US Dollars)	
Audit fees	**$ 1.7**	**$ 2.5**
Audit Related fees		
Tax fees		
All other fees		
Total	**$ 1.7**	**$ 2.5**

Policy and procedure for approval of audit and permitted non-audit services

All audit fees were pre-approved by the Company s Audit Committee, which concluded that the provision of such services by Samil PricewaterhouseCoopers and its affiliates was compatible with the maintenance of that firm s independence in the conduct of its auditing functions. The Audit Committee s Outside Auditor Independence Policy provides for pre-approval of specifically described audit, audit-related, non-audit related and tax services by the Audit Committee on an annual basis. Individual engagements must be separately approved. The policy also requires specific approval by the Audit Committee if total fees for audit related and tax services would exceed total fees for audit services in any fiscal year. The policy authorizes the Audit Committee to delegate to one or more of its members pre-approval authority with respect to permitted services that will be ratified by the entire Audit Committee at a future committee meeting in accordance with requirements of the SEC. The Audit Committee followed these guidelines in approving all services rendered by Samil PricewaterhouseCoopers and its affiliates.

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PART IV

Item 15. Exhibits and Financial Statement Schedules

1. Financial Statements

The information required by this item is included in Item 8 of Part II of this Form 10-K.

2. Financial Statement Schedules

Financial Statement Schedules are omitted because of the absence of the conditions under which they are required or because the information required by such omitted schedules is set forth in the financial statements or the notes thereto.

3. Exhibits

Exhibit No.	Exhibit Description
2.1(3)	Second Amended Chapter 11 Plan of Reorganization Proposed by the Official Committee of Unsecured Creditors of MagnaChip Semiconductor Finance Company, et al., dated as of September 24, 2009
3.1(8)	Certificate of Conversion of MagnaChip Semiconductor LLC
3.2(8)	Certificate of Incorporation of MagnaChip Semiconductor Corporation
3.3(8)	Bylaws of MagnaChip Semiconductor Corporation
3.4	[reserved]
3.5	[reserved]
3.6(4)	Form of Plan of Conversion of MagnaChip Semiconductor LLC
4.1(3)	Registration Rights Agreement, dated as of November 9, 2009, by and among MagnaChip Semiconductor LLC and each of the securityholders named therein
4.2	[reserved]
4.3	[reserved]
4.4(3)	Indenture, dated as of April 9, 2010, by and among MagnaChip Semiconductor S.A., MagnaChip Semiconductor Finance Company, the guarantors as named therein and Wilmington Trust FSB, as trustee
4.5	Form of 10.500% Senior Notes due 2018 and notation of guarantee (included in Exhibit 4.4)
4.6(3)	Exchange and Registration Rights Agreement, dated as of April 9, 2010, by and among MagnaChip Semiconductor S.A., MagnaChip Semiconductor Finance Company, the guarantors named therein, and Goldman, Sachs & Co., Barclays Capital Inc., Deutsche Bank Securities Inc. and Morgan Stanley & Co. Incorporated, as representatives of the several purchasers named therein
10.1	[reserved]
10.2(3)	Intellectual Property License Agreement, dated as of October 6, 2004, by and between Hynix Semiconductor Inc. and MagnaChip Semiconductor, Ltd. (Korea)
10.3(1)(3)	Land Lease and Easement Agreement, dated as of October 6, 2004, by and between Hynix Semiconductor Inc. and MagnaChip Semiconductor, Ltd. (Korea)

10.4(3)	First Amendment to Land Lease and Easement Agreement, dated as of December 30, 2005, by and between Hynix Semiconductor Inc. and MagnaChip Semiconductor, Ltd. (Korea)

Exhibit No.	Exhibit Description
10.5(1)(5)	General Service Supply Agreement, dated as of October 6, 2004, by and between Hynix Semiconductor Inc. and MagnaChip Semiconductor, Ltd. (Korea)
10.6(3)	First Amendment to the General Service Supply Agreement, dated as of December 30, 2005, by and between Hynix Semiconductor Inc. and MagnaChip Semiconductor, Ltd. (Korea)
10.7(1)(2)	License Agreement (ModularBCD), dated as of March 18, 2005, by and between Advanced Analogic Technologies, Inc. and MagnaChip Semiconductor, Ltd. (Korea)
10.8(1)(5)	Amended & Restated License Agreement (TrenchDMOS), dated as of September 19, 2007, by and between Advanced Analogic Technologies, Inc. and MagnaChip Semiconductor, Ltd. (Korea)
10.9(1)(2)	Technology License Agreement, dated as of December 16, 1996, by and between Advanced RISC Machines Limited and MagnaChip Semiconductor, Ltd. (Korea) (successor in interest to LG Semicon Company Limited)
10.10(1)(5)	Amendment to the Technology License Agreement, dated as of October 16, 2006, by and between ARM Limited and MagnaChip Semiconductor, Ltd. (Korea)
10.11(1)(2)	ARM7201TDSP Device License Agreement, dated as of August 26, 1997, by and between Advanced RISC Machines Limited and MagnaChip Semiconductor, Ltd. (Korea) (successor in interest to LG Semicon Company Limited)
10.12(1)(5)	Technology License Agreement, dated as of October 5, 1995, by and between Advanced RISC Machines Limited and MagnaChip Semiconductor, Ltd. (Korea) (successor in interest to LG Semicon Company Limited)
10.13(1)(2)	Technology License Agreement, dated as of July 2001, by and between ARM Limited and MagnaChip Semiconductor, Ltd. (Korea) (successor in interest to Hynix Semiconductor Inc.)
10.14(1)(2)	Technology License Agreement, dated as of August 22, 2001, by and between ARM Limited and MagnaChip Semiconductor, Ltd. (Korea) (successor in interest to Hynix Semiconductor Inc.)
10.15(2)	Technology License Agreement, dated as of May 20, 2004, by and between ARM Limited and MagnaChip Semiconductor, Ltd. (Korea) (successor in interest to Hynix Semiconductor Inc.)
10.16(1)(5)	Design Migration Agreement, dated as of May 1, 2007, by and between ARM Limited and MagnaChip Semiconductor, Ltd. (Korea)
10.17(2)	Basic Contract on Joint Development and Grant of License, dated as of November 10, 2006, by and between MagnaChip Semiconductor, Ltd. and Silicon Works (English translation)
10.18(3)	Master Service Agreement, dated as of December 27, 2000 by and between Sharp Corporation and MagnaChip Semiconductor, Ltd. (Korea) (successor in interest to Hyundai Electronics Japan Co., Ltd) (English translation)
10.19(2)	Warrant Agreement, dated as of November 9, 2009, between MagnaChip Semiconductor LLC and American Stock Transfer & Trust Company, LLC
10.20(2)*	MagnaChip Semiconductor LLC 2009 Common Unit Plan
10.21(2)*	MagnaChip Semiconductor LLC 2009 Common Unit Plan form of Option Agreement (Non-U.S. Participants)
10.22(2)*	MagnaChip Semiconductor LLC 2009 Common Unit Plan form of Option Agreement (U.S. Participants)
10.23(2)*	MagnaChip Semiconductor LLC 2009 Common Unit Plan form of Restricted Unit Agreement (Non-U.S. Participants)

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Exhibit No.	Exhibit Description
10.24(2)*	MagnaChip Semiconductor LLC 2009 Common Unit Plan form of Restricted Unit Agreement (U.S. Participants)
10.25(6)*	MagnaChip Semiconductor Corporation 2011 Equity Incentive Plan
10.26(6)*	MagnaChip Semiconductor Corporation 2011 Employee Stock Purchase Plan
10.27(3)*	Amended and Restated Service Agreement, dated as of May 8, 2008, by and between MagnaChip Semiconductor, Ltd. (Korea) and Sang Park
10.28	[reserved]
10.29	[reserved]
10.30(3)*	Entrustment Agreement, dated as of October 6, 2004, by and between MagnaChip Semiconductor, Ltd. (Korea) and Tae Young Hwang
10.31	[reserved]
10.32	[reserved]
10.33(2)*	Offer Letter dated March 7, 2006, from MagnaChip Semiconductor LLC and MagnaChip Semiconductor, Inc. to Brent Rowe, as supplemented on December 20, 2006
10.34	[reserved]
10.35	[reserved]
10.36(2)*	Offer Letter dated September 5, 2006, from MagnaChip Semiconductor LLC and MagnaChip Semiconductor, Ltd. to Margaret Sakai
10.37	[reserved]
10.38	[reserved]
10.39(2)*	Offer Letter, dated as of July 1, 2007, by and between MagnaChip Semiconductor, Ltd. (Korea) and Heung Kyu Kim
10.40	[reserved]
10.41	[reserved]
10.42(2)*	Offer Letter, dated as of June 20, 2007, by and between MagnaChip Semiconductor, Ltd. (Korea) and Tae Jong Lee
10.43	[reserved]
10.44	[reserved]
10.45(2)*	Service Agreement, dated as of April 1, 2006, by and between MagnaChip Semiconductor, Ltd. (Korea) and John McFarland
10.46	[reserved]
10.47	[reserved]
10.48	[reserved]
10.49(2)*	MagnaChip Semiconductor Corporation Form of Indemnification Agreement with Directors and Officers
10.50(3)	Form of Accredited Investor Certification delivered to the Official Committee of Unsecured Creditors of MagnaChip Semiconductor Finance Company, et al.

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Exhibit No.	Exhibit Description
10.51	[reserved]
10.52	[reserved]
10.53	[reserved]
10.54(9)*	MagnaChip Semiconductor LLC Profit Sharing Plan as adopted on December 31, 2009 and amended on February 15, 2010
10.55(6)*	MagnaChip Semiconductor Corporation 2011 Form of Stock Option Agreement (U.S. Participants)
10.56(6)*	MagnaChip Semiconductor Corporation 2011 Form of Stock Option Agreement (Non-U.S. Participants)
10.57(6)*	MagnaChip Semiconductor Corporation 2011 Form of Restricted Stock Units Agreement (U.S. Participants)
10.58(6)*	MagnaChip Semiconductor Corporation 2011 Form of Restricted Stock Units Agreement (Non-U.S. Participants)
10.59(6)*	MagnaChip Semiconductor Corporation 2011 Form of Restricted Stock Agreement (U.S. Participants)
10.60(6)*	MagnaChip Semiconductor Corporation 2011 Form of Restricted Stock Agreement (Non-U.S. Participants)
10.61	Amendment No. 1 to Warrant Agreement, dated as of February 16, 2012, between MagnaChip Semiconductor Corporation and American Stock Transfer & Trust Company, LLC
12.1	Statement Regarding Computation of Ratio of Earnings to Fixed Charges
21.1(7)	Subsidiaries of the Registrant
23.1	Consent of Samil PricewaterhouseCoopers
31.1	Certification of Chief Executive Officer required by Rule 13(a)-14(a), as adopted pursuant to § 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer required by Rule 13(a)-14(a), as adopted pursuant to § 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer required by 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer required by 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002
101.INS(10)	XBRL Instance Document
101.SCH(10)	XBRL Taxonomy Extension Schema Document
101.CAL(10)	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF(10)	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB(10)	XBRL Taxonomy Extension Label Linkbase Document
101.PRE(10)	XBRL Taxonomy Extension Presentation Linkbase Document

Footnotes:

(1) Certain portions of this document have been omitted pursuant to a grant of confidential treatment by the SEC.
(2) Incorporated by reference to the respective exhibits to our Registration Statement on Form S-1 filed on March 15, 2010 (Registration No. 333-165467).
(3) Incorporated by reference to the respective exhibits to our Amendment No. 1 to Registration Statement on Form S-1 filed on April 20, 2010 (Registration No. 333-165467).
(4) Incorporated by reference to the respective exhibits to our Amendment No. 2 to Registration Statement on Form S-1 filed on May 11, 2010 (Registration No. 333-165467).
(5) Incorporated by reference to the respective exhibit to Amendment No. 2 to MagnaChip Semiconductor S.A. s and MagnaChip Semiconductor Finance Company s Registration Statement on Form S-4 (Registration No. 333-168516) filed on October 14, 2010.
(6) Incorporated by reference to the respective exhibits to our Amendment No 9 to the Registration Statement on Form S-1 filed on February 18**,** 2011 (Registration No. 333-165467).
(7) Incorporated by reference to the respective exhibits to our Post-Effective Amendment No. 1 on Form S-1 filed on February 18**,** 2011 (Registration No. 333-168790).
(8) Incorporated by reference to the respective exhibits to our Current Report on Form 8-K filed on March 11, 2011.
(9) Incorporated by reference to the respective exhibit to our Quarterly Report on Form 10-Q filed on August 5, 2011.
(10) In accordance with Rule 406T of Regulation S-T, the information in these exhibits is furnished and deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.
* Management contract, compensatory plan or arrangement

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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.

MAGNACHIP SEMICONDUCTOR CORPORATION

By:	/s/ Sang Park
Name:	Sang Park
Title:	Chief Executive Officer
Date:	March 8, 2012

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.

	Date
/s/ Sang Park	March 8, 2012
Sang Park, *Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer)*	
/s/ Margaret Sakai	March 8, 2012
Margaret Sakai, *Chief Financial Officer (Principal Financial and Accounting Officer)*	
/s/ Michael Elkins	March 8, 2012
Michael Elkins, Director	
/s/ Randal Klein	March 8, 2012
Randal Klein, Director	
/s/ Ilbok Lee	March 8, 2012
Ilbok Lee, Director	
/s/ Brian Mulhern	March 8, 2012
Brian Mulhern, Director	
/s/ Douglas Norby	March 8, 2012
R. Douglas Norby, Director	
/s/ Nader Tavakoli	March 8, 2012
Nader Tavakoli, Director	

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Exhibit Index

Exhibit No.	Exhibit Description
2.1(3)	Second Amended Chapter 11 Plan of Reorganization Proposed by the Official Committee of Unsecured Creditors of MagnaChip Semiconductor Finance Company, et al., dated as of September 24, 2009
3.1(8)	Certificate of Conversion of MagnaChip Semiconductor LLC
3.2(8)	Certificate of Incorporation of MagnaChip Semiconductor Corporation
3.3(8)	Bylaws of MagnaChip Semiconductor Corporation
3.4	[reserved]
3.5	[reserved]
3.6(4)	Form of Plan of Conversion of MagnaChip Semiconductor LLC
4.1(3)	Registration Rights Agreement, dated as of November 9, 2009, by and among MagnaChip Semiconductor LLC and each of the securityholders named therein
4.2	[reserved]
4.3	[reserved]
4.4(3)	Indenture, dated as of April 9, 2010, by and among MagnaChip Semiconductor S.A., MagnaChip Semiconductor Finance Company, the guarantors as named therein and Wilmington Trust FSB, as trustee
4.5	Form of 10.500% Senior Notes due 2018 and notation of guarantee (included in Exhibit 4.4)
4.6(3)	Exchange and Registration Rights Agreement, dated as of April 9, 2010, by and among MagnaChip Semiconductor S.A., MagnaChip Semiconductor Finance Company, the guarantors named therein, and Goldman, Sachs & Co., Barclays Capital Inc., Deutsche Bank Securities Inc. and Morgan Stanley & Co. Incorporated, as representatives of the several purchasers named therein
10.1	[reserved]
10.2(3)	Intellectual Property License Agreement, dated as of October 6, 2004, by and between Hynix Semiconductor Inc. and MagnaChip Semiconductor, Ltd. (Korea)
10.3(1)(3)	Land Lease and Easement Agreement, dated as of October 6, 2004, by and between Hynix Semiconductor Inc. and MagnaChip Semiconductor, Ltd. (Korea)
10.4(3)	First Amendment to Land Lease and Easement Agreement, dated as of December 30, 2005, by and between Hynix Semiconductor Inc. and MagnaChip Semiconductor, Ltd. (Korea)
10.5(1)(5)	General Service Supply Agreement, dated as of October 6, 2004, by and between Hynix Semiconductor Inc. and MagnaChip Semiconductor, Ltd. (Korea)
10.6(3)	First Amendment to the General Service Supply Agreement, dated as of December 30, 2005, by and between Hynix Semiconductor Inc. and MagnaChip Semiconductor, Ltd. (Korea)
10.7(1)(2)	License Agreement (ModularBCD), dated as of March 18, 2005, by and between Advanced Analogic Technologies, Inc. and MagnaChip Semiconductor, Ltd. (Korea)
10.8(1)(5)	Amended & Restated License Agreement (TrenchDMOS), dated as of September 19, 2007, by and between Advanced Analogic Technologies, Inc. and MagnaChip Semiconductor, Ltd. (Korea)
10.9(1)(2)	Technology License Agreement, dated as of December 16, 1996, by and between Advanced RISC Machines Limited and MagnaChip Semiconductor, Ltd. (Korea) (successor in interest to LG Semicon Company Limited)

Exhibit No.	Exhibit Description
10.10(1)(5)	Amendment to the Technology License Agreement, dated as of October 16, 2006, by and between ARM Limited and MagnaChip Semiconductor, Ltd. (Korea)
10.11(1)(2)	ARM7201TDSP Device License Agreement, dated as of August 26, 1997, by and between Advanced RISC Machines Limited and MagnaChip Semiconductor, Ltd. (Korea) (successor in interest to LG Semicon Company Limited)
10.12(1)(5)	Technology License Agreement, dated as of October 5, 1995, by and between Advanced RISC Machines Limited and MagnaChip Semiconductor, Ltd. (Korea) (successor in interest to LG Semicon Company Limited)
10.13(1)(2)	Technology License Agreement, dated as of July 2001, by and between ARM Limited and MagnaChip Semiconductor, Ltd. (Korea) (successor in interest to Hynix Semiconductor Inc.)
10.14(1)(2)	Technology License Agreement, dated as of August 22, 2001, by and between ARM Limited and MagnaChip Semiconductor, Ltd. (Korea) (successor in interest to Hynix Semiconductor Inc.)
10.15(2)	Technology License Agreement, dated as of May 20, 2004, by and between ARM Limited and MagnaChip Semiconductor, Ltd. (Korea) (successor in interest to Hynix Semiconductor Inc.)
10.16(1)(5)	Design Migration Agreement, dated as of May 1, 2007, by and between ARM Limited and MagnaChip Semiconductor, Ltd. (Korea)
10.17(2)	Basic Contract on Joint Development and Grant of License, dated as of November 10, 2006, by and between MagnaChip Semiconductor, Ltd. and Silicon Works (English translation)
10.18(3)	Master Service Agreement, dated as of December 27, 2000 by and between Sharp Corporation and MagnaChip Semiconductor, Ltd. (Korea) (successor in interest to Hyundai Electronics Japan Co., Ltd) (English translation)
10.19(2)	Warrant Agreement, dated as of November 9, 2009, between MagnaChip Semiconductor LLC and American Stock Transfer & Trust Company, LLC
10.20(2)*	MagnaChip Semiconductor LLC 2009 Common Unit Plan
10.21(2)*	MagnaChip Semiconductor LLC 2009 Common Unit Plan form of Option Agreement (Non-U.S. Participants)
10.22(2)*	MagnaChip Semiconductor LLC 2009 Common Unit Plan form of Option Agreement (U.S. Participants)
10.23(2)*	MagnaChip Semiconductor LLC 2009 Common Unit Plan form of Restricted Unit Agreement (Non-U.S. Participants)
10.24(2)*	MagnaChip Semiconductor LLC 2009 Common Unit Plan form of Restricted Unit Agreement (U.S. Participants)
10.25(6)*	MagnaChip Semiconductor Corporation 2011 Equity Incentive Plan
10.26(6)*	MagnaChip Semiconductor Corporation 2011 Employee Stock Purchase Plan
10.27(3)*	Amended and Restated Service Agreement, dated as of May 8, 2008, by and between MagnaChip Semiconductor, Ltd. (Korea) and Sang Park
10.28	[reserved]
10.29	[reserved]
10.30(3)*	Entrustment Agreement, dated as of October 6, 2004, by and between MagnaChip Semiconductor, Ltd. (Korea) and Tae Young Hwang
10.31	[reserved]
10.32	[reserved]

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Exhibit No.	Exhibit Description
10.33(2)*	Offer Letter dated March 7, 2006, from MagnaChip Semiconductor LLC and MagnaChip Semiconductor, Inc. to Brent Rowe, as supplemented on December 20, 2006
10.34	[reserved]
10.35	[reserved]
10.36(2)*	Offer Letter dated September 5, 2006, from MagnaChip Semiconductor LLC and MagnaChip Semiconductor, Ltd. to Margaret Sakai
10.37	[reserved]
10.38	[reserved]
10.39(2)*	Offer Letter, dated as of July 1, 2007, by and between MagnaChip Semiconductor, Ltd. (Korea) and Heung Kyu Kim
10.40	[reserved]
10.41	[reserved]
10.42(2)*	Offer Letter, dated as of June 20, 2007, by and between MagnaChip Semiconductor, Ltd. (Korea) and Tae Jong Lee
10.43	[reserved]
10.44	[reserved]
10.45(2)*	Service Agreement, dated as of April 1, 2006, by and between MagnaChip Semiconductor, Ltd. (Korea) and John McFarland
10.46	[reserved]
10.47	[reserved]
10.48	[reserved]
10.49(2)*	MagnaChip Semiconductor Corporation Form of Indemnification Agreement with Directors and Officers
10.50(3)	Form of Accredited Investor Certification delivered to the Official Committee of Unsecured Creditors of MagnaChip Semiconductor Finance Company, et al.
10.51	[reserved]
10.52	[reserved]
10.53	[reserved]
10.54(9)*	MagnaChip Semiconductor LLC Profit Sharing Plan as adopted on December 31, 2009 and amended on February 15, 2010
10.55(6)*	MagnaChip Semiconductor Corporation 2011 Form of Stock Option Agreement (U.S. Participants)
10.56(6)*	MagnaChip Semiconductor Corporation 2011 Form of Stock Option Agreement (Non-U.S. Participants)
10.57(6)*	MagnaChip Semiconductor Corporation 2011 Form of Restricted Stock Units Agreement (U.S. Participants)
10.58(6)*	MagnaChip Semiconductor Corporation 2011 Form of Restricted Stock Units Agreement (Non-U.S. Participants)
10.59(6)*	MagnaChip Semiconductor Corporation 2011 Form of Restricted Stock Agreement (U.S. Participants)

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Exhibit No.	Exhibit Description
10.60(6)*	MagnaChip Semiconductor Corporation 2011 Form of Restricted Stock Agreement (Non-U.S. Participants)
10.61	Amendment No. 1 to Warrant Agreement, dated as of February 16, 2012, between MagnaChip Semiconductor Corporation and American Stock Transfer & Trust Company, LLC
12.1	Statement Regarding Computation of Ratio of Earnings to Fixed Charges
21.1(7)	Subsidiaries of the Registrant
23.1	Consent of Samil PricewaterhouseCoopers
31.1	Certification of Chief Executive Officer required by Rule 13(a)-14(a), as adopted pursuant to § 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer required by Rule 13(a)-14(a), as adopted pursuant to § 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer required by 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer required by 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002
101.INS(10)	XBRL Instance Document
101.SCH(10)	XBRL Taxonomy Extension Schema Document
101.CAL(10)	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF(10)	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB(10)	XBRL Taxonomy Extension Label Linkbase Document
101.PRE(10)	XBRL Taxonomy Extension Presentation Linkbase Document

Footnotes:

(1) Certain portions of this document have been omitted pursuant to a grant of confidential treatment by the SEC.
(2) Incorporated by reference to the respective exhibits to our Registration Statement on Form S-1 filed on March 15, 2010 (Registration No. 333-165467).
(3) Incorporated by reference to the respective exhibits to our Amendment No. 1 to Registration Statement on Form S-1 filed on April 20, 2010 (Registration No. 333-165467).
(4) Incorporated by reference to the respective exhibits to our Amendment No. 2 to Registration Statement on Form S-1 filed on May 11, 2010 (Registration No. 333-165467).
(5) Incorporated by reference to the respective exhibit to Amendment No. 2 to MagnaChip Semiconductor S.A. s and MagnaChip Semiconductor Finance Company s Registration Statement on Form S-4 (Registration No. 333-168516) filed on October 14, 2010.
(6) Incorporated by reference to the respective exhibits to our Amendment No 9 to the Registration Statement on Form S-1 filed on February 18**,** 2011 (Registration No. 333-165467).
(7) Incorporated by reference to the respective exhibits to our Post-Effective Amendment No. 1 on Form S-1 filed on February 18**,** 2011 (Registration No. 333-168790).
(8) Incorporated by reference to the respective exhibits to our Current Report on Form 8-K filed on March 11, 2011.
(9) Incorporated by reference to the respective exhibit to our Quarterly Report on Form 10-Q filed on August 5, 2011.

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(10) In accordance with Rule 406T of Regulation S-T, the information in these exhibits is furnished and deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

* Management contract, compensatory plan or arrangement