

MAGNACHIP SEMICONDUCTOR Corp

Form 10-K

February 12, 2015

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

or

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

Commission File Number 001-34791

MagnaChip Semiconductor Corporation

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(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

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

c/o MagnaChip Semiconductor S.A.

1, Allée Scheffer, L-2520

Luxembourg, Grand Duchy of Luxembourg

(Address of principal executive offices) (Zip Code)

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

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

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

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

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

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

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

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

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

Large Accelerated Filer

Accelerated Filer

x

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

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

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

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

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Explanatory Note

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

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

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

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

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

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

Restatement Summary

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

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

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

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

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

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

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

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

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MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

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

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PART I

INDUSTRY AND MARKET DATA

In this Report, we rely on and refer to information regarding the semiconductor market from Gartner, Inc. (Gartner). Market data attributed to Gartner is from Semiconductor Forecast Database, Worldwide, 4Q13 Update. Although we believe that this information is reliable, we have not independently verified it. We do not have any obligation to announce or otherwise make publicly available updates or revisions to forecasts contained in these documents. In addition, in many cases, we have made statements in this Report regarding our industry and our position in the industry based on our experience in the industry and our own views of market conditions.

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

We have made certain forward-looking statements in this Report within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act), and Section 27A of the Securities Act of 1933, as amended (the Securities Act), that involve risks and uncertainties. Forward-looking statements give our current expectations and projections relating to our financial condition, results of operations, plans, objectives, future performance and business. You can identify these statements by the fact that they do not relate strictly to historical or current facts. These statements may include words such as anticipate, estimate, expect, project, intend, plan, believe and other words of similar meaning in connection with any discussion of the timing or nature of future operating or financial performance or other events. All statements other than statements of historical facts included in this Report that address activities, events or developments that we expect, believe or anticipate will or may occur in the future are forward-looking statements.

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

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

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

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Item 1. Business

General

We are a Korea-based designer and manufacturer of analog and mixed-signal semiconductor products for high-volume consumer, computer and communication applications. We believe we have one of the broadest and deepest analog and mixed-signal semiconductor technology platforms in the industry, supported by our 30-year operating history, large portfolio of approximately 3,167 registered novel patents and 134 pending novel patent applications and extensive engineering and manufacturing process expertise. Our business is comprised of three key business lines: Display Solutions, Power Solutions and Semiconductor Manufacturing Services. Our Display Solutions products include display drivers that cover a wide range of flat panel displays and multimedia devices. Our Power Solutions products include discrete and integrated circuit solutions for power management in high-volume consumer, computer, communication and industrial applications. Our Semiconductor Manufacturing Services provide specialty analog and mixed-signal foundry services for fabless semiconductor companies that serve the consumer, computing and wireless end markets.

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

We have a long history of supplying and collaborating on product and technology development with leading innovators in the consumer electronics market. As a result, we have been able to strengthen our technology platform and develop products and services that are in high demand by our customers and end consumers. We sold over 2,100 distinct products in each of the years ended December 31, 2013 and December 31, 2012, with a substantial portion of our revenues derived from a concentrated number of customers. Our largest Semiconductor Manufacturing Services customers include some of the leading semiconductor companies that design analog and mixed-signal products for the consumer, computing and wireless end markets.

Our business is largely driven by innovation in the consumer electronics markets and the growing adoption by consumers worldwide of electronic devices for use in their daily lives. The consumer electronics market is large and growing rapidly, largely due to consumers increasingly accessing a wide variety of rich media content, such as high definition audio and video, mobile television and games on advanced consumer electronic devices. According to Gartner, production of liquid crystal display, or LCD televisions, smartphones, and tablet PCs is expected to grow from 2013 to 2016 by a compound annual growth rate of 3%, 16%, and 22%, respectively. Electronics manufacturers are continuously implementing advanced technologies in new generations of electronic devices using analog and mixed-signal semiconductor components, such as display drivers that enable display of high resolution images, encoding and decoding devices that allow playback of high definition audio and video, and power management semiconductors that increase power efficiency, thereby reducing heat dissipation and extending battery life. According to Gartner, the worldwide semiconductor market in 2012 was \$300 billion.

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

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Our History

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

On March 10, 2011, we completed our initial public offering, which we refer to as the MagnaChip IPO. Prior to the MagnaChip IPO, MagnaChip Semiconductor LLC, a Delaware limited liability company, was converted to MagnaChip Semiconductor Corporation, a Delaware corporation. In order to consummate such a conversion, a certificate of conversion was filed with the Secretary of State of the State of Delaware prior to the effectiveness of the MagnaChip IPO registration statement. In connection with the corporate conversion, outstanding common units of MagnaChip Semiconductor LLC were automatically converted into shares of common stock of MagnaChip Semiconductor Corporation, outstanding options to purchase common units of MagnaChip Semiconductor LLC were automatically converted into options to purchase shares of common stock of MagnaChip Semiconductor Corporation and outstanding warrants to purchase common units of MagnaChip Semiconductor LLC were automatically converted into warrants to purchase shares of common stock of MagnaChip Semiconductor Corporation, all at a ratio of one share of common stock for eight common units. We refer to such transactions as the corporate conversion.

Avenue Capital Management II, L.P., or Avenue Capital Management, is a global investment management firm, and it and its affiliated funds specialize in investing in high yield debt, debt of insolvent or financially distressed companies and equity of companies undergoing financial or operational turnarounds or reorganizations. In this Report, we refer to funds affiliated with Avenue Capital Management collectively as Avenue. Avenue was a holder of a significant portion of our indebtedness which was outstanding prior to our 2009 reorganization proceedings under Chapter 11 of the United States Bankruptcy Code, which we refer to as our reorganization proceedings. In connection with our emergence from our reorganization proceedings, Avenue became our majority unitholder as a result of its participation in our rights offering in our reorganization proceedings.

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

Restatement

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

Our Products and Services

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

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

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

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We also offer semiconductor manufacturing services to fabless analog and mixed-signal semiconductor companies that require differentiated, specialty analog and mixed-signal process technologies. We believe the majority of our top twenty Semiconductor Manufacturing Services customers use us as their primary manufacturing source for the products that we manufacture for them. Our process technologies are optimized for analog and mixed-signal devices and include standard complementary metal-oxide semiconductor (CMOS), high voltage CMOS, ultra-low leakage high voltage CMOS and bipolar complementary double-diffused metal oxide semiconductor (BCDMOS) and electronically erasable programmable read only memory (EEPROM). Our Semiconductor Manufacturing Services customers use us to manufacture a wide range of products, including display drivers, LED drivers, audio encoding and decoding devices, microcontrollers, touch screen controllers, RF switches, park distance control sensors for automotive, electronic tag memories and power management semiconductors. Our Semiconductor Manufacturing Services business represented 53.9%, 49.0% and 44.5% of our net sales for the fiscal years ended December 31, 2013, 2012 and 2011, respectively.

We manufacture all of our products at our three fabrication facilities located in Korea. We have approximately 377 proprietary process flows we can utilize for our products and offer to our Semiconductor Manufacturing Services customers. Our manufacturing base serves both our display driver and power management businesses and Semiconductor Manufacturing Services customers, allowing us to optimize our asset utilization and leverage our investments across our product and service offerings. Analog and mixed-signal manufacturing facilities and processes are typically distinguished by design and process implementation expertise rather than the use of the most advanced equipment. These processes also tend to migrate more slowly to smaller geometries due to technological barriers and increased costs. For example, some of our products use high-voltage technology that requires larger geometries and that may not migrate to smaller geometries for several years, if at all. As a result, our manufacturing base and strategy does not require substantial investment in leading edge process equipment, allowing us to utilize our facilities and equipment over an extended period of time with moderate required capital investments.

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

Market Opportunity

The consumer electronics market is large and growing rapidly. Growth in this market is being driven by consumers seeking to enjoy a wide variety of rich media content, such as high definition audio and video, mobile television and games. Consumer electronics manufacturers recognize that the consumer entertainment experience plays a critical role in differentiating their products. To address and further stimulate consumer demand, electronics manufacturers have been driving rapid advances in the technology, functionality, form factor, cost, quality, reliability and power consumption of their products. Electronics manufacturers are continuously implementing advanced technologies in new generations of electronic devices using analog and mixed-signal semiconductor components, such as display drivers that enable display of high resolution images, encoding and decoding devices that allow playback of high definition audio and video, and power management semiconductors that increase power efficiency, thereby reducing heat dissipation and extending battery life. These advanced generations of consumer devices are growing faster than the overall consumer electronics market. For example, according to Gartner, production of liquid crystal display (LCD) televisions, smartphones and tablet PCs is expected to grow from 2013 to 2016 by a compound annual growth rate of 3%, 16%, and 22%, respectively.

The user experience delivered by a consumer electronic device is substantially driven by the quality of the display, audio and video processing capabilities and power efficiency of the device. Analog and mixed-signal semiconductors enable and enhance these capabilities. Examples of these analog and mixed-signal semiconductors include display drivers, timing controllers, audio encoding and decoding devices, or codecs, and interface circuits, as well as power management semiconductors such as voltage regulators, converters and switches. According to Gartner, the worldwide semiconductor market in 2012 was \$300 billion.

Requirements of Leading Consumer Electronics Manufacturers

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

Broad Offering of Differentiated Products with Advanced System-Level Features and Functions. Leading consumer electronics manufacturers seek to differentiate their products by incorporating innovative semiconductor products that enable unique system-level

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functionality and enhance performance. These consumer electronics manufacturers seek to closely collaborate with semiconductor solutions providers that continuously develop new and advanced products, technologies, and manufacturing processes that enable state of the art features and functions, such as bright and thin displays, small form factor and energy efficiency.

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

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

Ability to Deliver Cost Competitive Solutions. Electronics manufacturers are under constant pressure to deliver cost-competitive solutions. To accomplish this objective, they need strategic semiconductor suppliers that have the ability to provide system-level solutions, highly integrated products and a broad product offering at a range of price points and have the design and manufacturing infrastructure and logistical support to deliver cost competitive products.

Focus on Delivering Highly Energy-Efficient Products. Consumers increasingly seek longer run-time, environmentally friendly and energy-efficient consumer electronic products. In addition, there is increasing regulatory focus on reducing energy consumption of consumer electronic products. As a result of global focus on more environmentally friendly products, our customers are seeking analog and mixed-signal semiconductor suppliers that have the technological expertise to deliver solutions that satisfy these ever increasing regulatory and consumer power efficiency demands.

Our Competitive Strengths

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

Advanced Analog and Mixed-Signal Semiconductor Technology and Intellectual Property Platform. We believe we have one of the broadest and deepest analog and mixed-signal semiconductor technology platforms in the industry. Our long operating history, large patent portfolio, extensive engineering and manufacturing process expertise and wide selection of analog and mixed-signal intellectual property libraries allow us to leverage our technology and develop new products across multiple end markets. Our product development efforts are supported by a team of approximately 449 engineers. Our platform allows us to develop and introduce new products quickly as well as to integrate numerous functions into a single product. For example, we were one of the first companies to introduce a commercial AMOLED display driver for mobile phones.

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

Longstanding Presence in Asia and Proximity to Global Consumer Electronics Supply Chain. Our presence in Asia facilitates close contact with our customers and fast response to their needs, and enhances our visibility into new product opportunities, markets and technology trends. According to Gartner, semiconductor consumption in Asia, excluding Japan, is projected to grow to 71% of global consumption by 2016. Our design center and substantial manufacturing operations in Korea place us close to many of our largest customers and to the core of the global consumer electronics supply chain. We have active applications, engineering, product design and customer support resources, as well as senior management and marketing resources, in geographic locations close to our customers. This allows us to strengthen our relationship with customers through better service, faster turnaround time and improved product design collaboration. We believe this also helps our customers to deliver products faster than their competitors and to solve problems more efficiently than would be possible with other suppliers.

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

Distinctive Analog and Mixed-Signal Process Technology Expertise and Manufacturing Capabilities. We have developed specialty analog and mixed-signal manufacturing processes such as high voltage CMOS, power and embedded memory. These processes enable us to flexibly ramp mass production of display, power and mixed-signal products, and shorten the duration from design to delivery of highly integrated, high-performance analog and mixed-signal semiconductors.

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

Our Strategy

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

Leverage Our Advanced Analog and Mixed-Signal Technology Platform to Innovate and Deliver New Products and Services. We intend to continue to utilize our extensive patent and technology portfolio, analog and mixed-signal design and manufacturing expertise and specific end-market applications and system-level design expertise to deliver products with high levels of performance by utilizing our systems expertise and leveraging our deep knowledge of our customers' needs. For example, in Power Solutions, we have utilized our extensive patent portfolio, process technologies and analog and mixed-signal technology platform to develop low power integrated power solutions for AC-DC offline switchers to address more of our customers' needs. In Display Solutions, we continue to invest in research and development to introduce new technologies to support our customers' technology roadmaps. In Semiconductor Manufacturing Services, we are developing cost-effective processes that substantially reduce die size using deep trench isolation.

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

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

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

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Drive Execution Excellence. We intend to improve our execution through a number of management initiatives, new processes for product development, customer service and personnel development. We expect these ongoing initiatives will continue to improve our new product development and customer service as well as enhance our commitment to a culture of quick action and execution by our workforce. In addition, we have focused on and continually improved our manufacturing efficiency during the past several years.

Optimize Asset Utilization, Return on Capital Investments and Cash Flow Generation. We intend to keep our capital expenditures relatively low by maintaining our focus on specialty process technologies that do not require substantial investment in frequent upgrades to the latest manufacturing equipment. By utilizing our manufacturing facilities for both our Display Solutions and Power Solutions products and our Semiconductor Manufacturing Services customers, we seek to maximize return on our capital investments and our cash flow generation.

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Our Technology

We continuously strengthen our advanced analog and mixed-signal semiconductor technology platform by developing innovative technologies and integrated circuit building blocks that enhance the functionality of consumer electronics products through brighter, thinner displays, enhanced image quality, smaller form factor and longer battery life. We seek to further build our technology platform through proprietary research and development and selective licensing and acquisition of complementary technologies, as well as disciplined process improvements in our manufacturing operations. Our goal is to leverage our experience and development initiatives across multiple end markets and utilize our understanding of system-level issues our customers face to introduce new technologies that enable our customers to develop more advanced, higher performance products.

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

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

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

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

Products and Services by Business Line

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

Display Solutions

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

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

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

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

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

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

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

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

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

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

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

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

* In customer qualification stage

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

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

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

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

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

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

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

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

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

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

Power Solutions

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

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

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

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

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

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

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

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

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

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

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

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

Small package size of DFN type

Advanced CMOS process

Semiconductor Manufacturing Services

We provide semiconductor manufacturing services to analog and mixed-signal semiconductor companies. We have approximately 377 process flows we offer to our Semiconductor Manufacturing Services customers. We also partner with key customers to jointly develop or customize specialized processes that enable our customers to improve their products and allow us to develop unique manufacturing expertise.

Our Semiconductor Manufacturing Services are targeted at customers who require differentiated, specialty analog and mixed-signal process technologies such as high voltage CMOS, embedded memory and power. We refer to our approach of delivering specialized services to our customers as our application-specific technology strategy. We differentiate ourselves through the depth of our intellectual property portfolio, ability to customize process technology to meet the customers' requirements effectively, long history in this business and reputation for excellence.

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

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

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

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

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

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

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

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Zener diode

LCD monitors

Ultra high voltage

Automotive

Thick metal

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

Sales and Marketing

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

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

Research and Development

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

Customers

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

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

Intellectual Property

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

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

Competition

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

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

Employees

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

Environmental

We are subject to a variety of environmental, health and safety laws and regulations in each of the jurisdictions in which we operate, governing, among other things, air emissions, wastewater discharges, the generation, use, handling, storage and disposal of, and exposure to, hazardous substances (including asbestos) and waste, soil and groundwater contamination and employee health and safety. These laws and regulations are complex, change frequently and have tended to become more stringent over time. For example, the Korean government's Enforcement Decree to the Framework Act on Low Carbon Green Growth became effective in April 2010. Certain designated businesses, including our Korean subsidiary, were required to submit plans to reduce greenhouse emissions and energy consumption. Our Korean subsidiary set emissions and consumption targets and in 2011 negotiated an implementation plan with Korean governmental authorities. Each year thereafter, our Korean subsidiary was required to agree on emissions and consumption targets with Korean governmental authorities and submit an independently verified report of prior year's compliance. Beginning in 2015, our Korean subsidiary became subject to a new set of greenhouse gas emissions regulation, the Korean Emissions Trading Scheme, or K-ETS, under the Act on Allocation and Trading of Greenhouse Gas Emission Allowances. Under K-ETS, our Korean subsidiary was allocated a certain amount of emissions allowance in accordance with the National Allocation Plan prepared by the Korean government and will be required to meet its allocated target by either reducing the emission or purchasing the allowances from other participants in the emission trading market. There can be no assurance that we have been or will be in compliance with all of these laws and regulations, or that we will not incur material costs or liabilities in connection with these laws and regulations in the future. The adoption of new environmental, health and safety laws and the failure to comply with new or existing laws or issues relating to hazardous substances could subject us to material liability (including substantial fines or penalties), impose the need for additional capital equipment or other process requirements upon us, curtail our operations or restrict our ability to expand operations.

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Raw Materials

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

Geographic Financial Information

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

Available Information

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

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

Item 1A. Risk Factors

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

Risks Related to the Restatement, Failure to File Timely Periodic Reports with the SEC and Our Internal Control Over Financial Reporting

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

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

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

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

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

our failure to have current financial information available;

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

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

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

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

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

the incurrence of significant Restatement-related expenses;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

the liquidity of our common stock;

the market price of our common stock;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Risks Related to Our Business

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

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

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

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

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

We must develop new products and services and enhance our existing products and services to meet rapidly evolving customer requirements. We design products for customers who continually require higher performance and functionality at lower costs. We must, therefore, continue to enhance the performance and functionality of our products. The development process for these advancements is lengthy and requires us to accurately anticipate technological changes and market trends. Developing and enhancing these products is uncertain and can be time-consuming, costly and complex. If we do not continue to develop and maintain process technologies that are in demand by our Semiconductor Manufacturing Services customers, we may be unable to maintain existing customers or attract new customers.

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

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

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

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

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

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

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

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

Historically, we have relied on a limited number of customers for a substantial portion of our total revenue. If we were to lose key customers or if customers cease to place orders for our high-volume products or services, our financial results would be adversely affected. For the years ended December 31, 2013, 2012 and 2011, our ten largest customers accounted for 59%, 61% and 60% of our net sales, respectively. Substantially all of our sales to these customers are in our Display Solutions line. For the year ended December 31, 2013, sales to Samsung Display Corporation represented 11.3% of the Company's net sales and 40.9% of our Display Solutions division's net sales. For the year ended December 31, 2012, sales to LG Display represented 11.5% of the Company's net sales and 31.9% of our Display Solutions division's net sales. Significant reductions in sales to any of these customers, especially our few largest customers, the loss of other major customers or a general curtailment in orders for our high-volume products or services within a short period of time would adversely affect our business.

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

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

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

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

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

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

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

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

our ability to adopt or adapt to emerging industry standards;

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

entrance of new competitors into our markets;

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

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

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

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

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

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

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

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

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

In addition, we collaborate and jointly develop certain process technologies and manufacturing process flows customized for certain of our Semiconductor Manufacturing Services customers. To the extent that our Semiconductor Manufacturing Services customers fail to achieve market acceptance for their products, we may be unable to recoup our engineering resources commitment and our investment in process technology development, which would harm our business.

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

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

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

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

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

Historically, a portion of our revenues and greater than the majority of our operating expenses and costs of sales have been denominated in non-U.S. currencies, principally the Korean won, and we expect that this will remain true in the future. Because we report our results of operations in U.S. dollars, changes in the exchange rate between the Korean won and the U.S. dollar could materially impact our reported results of operations and distort period to period comparisons. In particular, because of the difference in the amount of our consolidated revenues and expenses that are in U.S. dollars relative to Korean won, a depreciation in the U.S. dollar relative to the Korean won could result in a material increase in reported costs relative to revenues, and therefore could cause our profit margins and operating income to appear to decline materially, particularly relative to prior periods. The converse is true if the U.S. dollar were to appreciate relative to the Korean won. For example, foreign currency fluctuations had an unfavorable impact on our reported profit margins and operating income from operations for the fiscal years ended December 31, 2013 compared to the fiscal year ended December 31, 2012. As a result of foreign currency fluctuations, it could be more difficult to detect underlying trends in our business and results of operations. In addition, to the extent that fluctuations in currency exchange rates cause our results of operations to differ from our expectations or the expectations of our investors, the trading price of our stock or the price of the 2021 Notes could be adversely affected.

From time to time, we may engage in exchange rate hedging activities in an effort to mitigate the impact of exchange rate fluctuations. Our Korean subsidiary enters into foreign currency option, forward and zero cost collar contracts in order to mitigate a portion of the impact of U.S. dollar-Korean won exchange rate fluctuations on our operating results. These foreign currency option, forward and zero cost collar contracts typically require us to sell specified notional amounts in U.S. dollars and provide us the option to sell specified notional amounts in U.S. dollars during successive months to our counterparty in exchange for Korean won at specified exchange rates. Obligations under these foreign currency option, forward and zero cost collar contracts must be cash collateralized if our exposure exceeds certain specified thresholds. These option, forward and zero cost collar contracts may be terminated by the counterparty in a number of circumstances, including if our long-term debt rating falls below B-/B3 or if our total cash and cash equivalents is less than \$30 million at the end of a fiscal quarter. We cannot assure that any hedging technique we implement will be effective. If our hedging activities are not effective, changes in currency exchange rates may have a more significant impact on our results of operations. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Factors Affecting our Results of Operations for further details.

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

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

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

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

As of December 31, 2014, 2,144 employees, or approximately 63% of our employees, were represented by the MagnaChip Semiconductor Labor Union. We can offer no assurance that any issues with the labor union and other employees will be resolved favorably for us in the future, that we will not experience work stoppages or other labor problems in future years or that we will not incur significant expenses related to such issues.

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

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

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

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

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

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

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

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

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

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

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

Our semiconductors are incorporated into a number of end products, and our business is exposed to product return, warranty and product liability risk and the risk of negative publicity if our products fail. Although we maintain insurance for product liability claims, the amount and scope of our insurance may not be adequate to cover a product liability claim that is asserted against us. In addition, product liability insurance

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could become more expensive and difficult to maintain and, in the future, may not be available on commercially reasonable terms, or at all.

In addition, we are exposed to the product liability risk and the risk of negative publicity affecting our customers. Our sales may decline if any of our customers are sued on a product liability claim. We also may suffer a decline in sales from the negative

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publicity associated with such a lawsuit or with adverse public perceptions in general regarding our customers' products. Further, if our products are delivered with impurities or defects, we could incur additional development, repair or replacement costs, and our credibility and the market's acceptance of our products could be harmed.

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

Our company organizational structure was created in part based on certain interpretations and conclusions regarding various tax laws, including withholding tax and other tax laws of applicable jurisdictions. Our interpretations and conclusions regarding tax laws, however, are not binding on any taxing authority and, if these interpretations and conclusions are incorrect, if our business were to be operated in a way that rendered us ineligible for tax exemptions or caused us to become subject to incremental tax, or if the authorities were to change, modify or have a different interpretation of the relevant tax laws, we could suffer adverse tax and other financial consequences, and the anticipated benefits of our organizational structure could be materially impaired.

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

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

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

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

stop our manufacture, use, sale or importation of infringing products;

expend significant resources to develop or acquire non-infringing technologies;

discontinue processes; or

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

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There can be no assurance that we would be successful in such development or acquisition or that such licenses would be available under reasonable terms, or at all. The termination of key third-party licenses relating to the use of intellectual property in our products and our design processes, such as our agreements with Silicon Works Co., Ltd. and ARM Limited, would materially and adversely affect our business.

Our competitors may develop, patent or gain access to know-how and technology similar to our own. In addition, many of our patents are subject to cross licenses, several of which are with our competitors.

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

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

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

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

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

In April 2010, the Korean government's Enforcement Decree to the Framework Act on Low Carbon Green Growth became effective. Certain designated businesses, including our Korean subsidiary, were required to submit plans to reduce greenhouse emissions and energy consumption. Our Korean subsidiary first set emissions and consumption targets in 2011 and negotiated an implementation plan with Korean governmental authorities. Each year thereafter, our Korean subsidiary was required to agree on emissions and consumption targets with Korean governmental authorities and submit an independently verified report of prior year's compliance. Beginning in 2015, our Korean subsidiary became subject to K-ETS, a new set of greenhouse gas emissions regulation, under the Act on Allocation and Trading of Greenhouse Gas Emission Allowances. Under K-ETS, our Korean subsidiary was allocated a certain amount of emissions allowance in accordance with the National Allocation Plan prepared by the Korean government, and will be required to meet its allocated target by either reducing the emission or purchasing the allowances from other participants in the emission trading market. If the targets currently allocated to our Korean subsidiary by Korean governmental authorities require us to reduce our emissions or energy consumption, we could be subject to additional and potentially costly compliance or remediation expenses, including potentially the installation of equipment and changes in the type of materials we use in manufacturing, as well as cost of procuring emission allowances to cover the excess emissions, which could adversely affect our financial position and results of operations.

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

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

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

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

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

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

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

Although we do not derive any revenue from, nor sell any products in, North Korea, any future increase in tensions between South Korea and North Korea that may occur, for example, if North Korea experiences a leadership crisis, high-level contacts between South Korea and North Korea break down, or military hostilities occur, could have a material adverse effect on the South Korean economy and on our business, financial condition, results of operations and the market value of our common stock.

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

Most of our subsidiaries are organized or incorporated outside of the United States and some of our executive officers as well as our independent auditors are organized or reside outside of the United States. Most of our and our subsidiaries' assets are located outside of the United States and in particular, in Korea. Accordingly, any judgment obtained in the United States against us or our subsidiaries may not be collectible in the United States. As a result, it may not be possible for you to effect service of process within the United States upon these persons or to enforce against them or us court judgments obtained in the United States that are predicated upon the civil liability provisions of the federal securities laws of the United States or of the securities laws of any state of the United States. In particular, there is doubt as to the enforceability in Korea or any other jurisdictions outside the United States, either in original actions or in actions for enforcement of judgments of United States courts, of civil liabilities predicated on the federal securities laws of the United States or the securities laws of any state of the United States.

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

As of December 31, 2013, our total indebtedness was \$223.9 million, net of unamortized discount of \$1.1 million. We are permitted under the indenture governing our outstanding 2021 Notes to incur additional debt under certain conditions, including additional secured debt. If new debt were to be incurred in the future, the related risks that we now face could intensify. Our substantial debt could have important consequences, including:

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

increasing our vulnerability to general economic and industry conditions;

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

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

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

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

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

The credit ratings assigned to our debt reflect each rating agency's opinion of our ability to make payments on the debt obligations when such payments are due. The rating of our outstanding 2021 Notes as of December 2014 is Caa1 by Moody's and B+ by Standard and Poor's, both of which are below investment grade. A rating may be subject to revision or withdrawal at any time by the assigning rating agency. We may experience downgrades in our debt ratings in the future. Any lowering of our debt ratings would adversely impact our ability to raise additional debt financing and increase the cost of any such financing that is obtained. In the event any ratings downgrades are significant, we may choose not to incur new debt or refinance existing debt if we are unable to incur or refinance such debt at favorable interest rates or on favorable terms.

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If our cash flows and capital resources are insufficient to fund our debt service obligations or if we are unable to refinance existing indebtedness on favorable terms, we may be forced to reduce or delay capital expenditures, sell assets, seek additional capital or restructure or refinance our indebtedness. These alternative measures may not be successful and thus render us unable to meet our scheduled debt service obligations. In the absence of such operating results and resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. The indenture governing our outstanding 2021 Notes restricts our ability to dispose of assets and use the proceeds from the disposition. We may not be able to consummate those dispositions or be able to obtain the proceeds which we could realize from them and these proceeds may not be adequate to meet any debt service obligations then due.

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

We are a holding company with no independent operations of our own. Our subsidiaries conduct substantially all of the operations necessary to fund payments on our outstanding 2021 Notes, other debt and any other obligations. Our ability to make payments on our outstanding 2021 Notes and our other obligations will depend on our subsidiaries' cash flow and their payment of funds to us. Our subsidiaries' ability to make payments to us will depend on:

their earnings;

covenants contained in our debt agreements (including the indenture governing our outstanding 2021 Notes) and the debt agreements of our subsidiaries;

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

business and tax considerations; and

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

We cannot assure that the operating results of our subsidiaries at any given time will be sufficient to make distributions or other payments to us or that any distributions or payments will be adequate to pay principal and interest, and any other payments, on our outstanding 2021 Notes, other debt or any other obligations when due, and the failure to make such payments could have a material adverse effect on our business, financial condition and results of operations.

Restrictions on MagnaChip Korea's ability to make payments on its intercompany loans from MagnaChip Semiconductor B.V., or on its ability to pay dividends in excess of statutory limitations, could hinder our ability to make payments on our outstanding 2021 Notes.

We anticipate that payments under our outstanding 2021 Notes will be funded in part by MagnaChip Korea's repayment of its existing loans from MagnaChip Semiconductor B.V., with MagnaChip Semiconductor B.V. using such repayments in turn to repay the loans owed to MagnaChip Semiconductor S.A., which will repay loans owed to us. Under the Korean Foreign Exchange Transaction Act, the minister of the Ministry of Strategy and Finance is authorized to temporarily suspend payments in foreign currencies in the event of natural calamities, wars, conflicts of arms, grave and sudden changes in domestic or foreign economic conditions, or other similar situations. In addition, under the Korean Commercial Code, a Korean company is permitted to make a dividend payment in accordance with the provisions in its articles of incorporation out of retained earnings (as determined in accordance with the Korean Commercial Code and the generally accepted accounting principles in Korea), but no more than twice a year. If MagnaChip Korea is prevented from making payments under its intercompany loans due to restrictions on payments of foreign currency or if it has an insufficient amount of retained earnings under the Korean Commercial Code to make dividend payments to MagnaChip Semiconductor B.V., we may not have sufficient funds to make payments on our outstanding 2021 Notes.

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

The indenture governing our outstanding 2021 Notes contains, and our future debt agreements will likely contain, numerous covenants imposing financial and operating restrictions on our business. These restrictions may affect our ability to operate our business, may limit our ability to take advantage of potential business opportunities as they arise and may adversely affect the conduct of our current business, including by restricting our ability to finance future operations and capital needs and by limiting our ability to engage in other business activities. These covenants will place restrictions on our ability and the ability of our operating subsidiaries to, among other things:

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

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incur debt or issue preferred stock;

create liens;

make certain investments;

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

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

enter into sale-leaseback transactions;

enter into transactions with our affiliates; and

designate our subsidiaries as unrestricted subsidiaries.

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

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

Since 2008, the global downturn and related financial crisis led to slower economic activity, increased unemployment, concerns about inflation and energy costs, decreased business and consumer confidence, reduced corporate profits and capital spending, adverse business conditions and lower levels of liquidity in many financial markets. Consumers and businesses deferred purchases in response to tighter credit and negative financial news, which has in turn negatively affected product demand and other related matters. The global downturn led to reduced customer spending in the semiconductor market and in our target markets, made it difficult for our customers, our vendors and us to accurately forecast and plan future business activities and caused U.S. and foreign businesses to slow spending on our products. Although recently there have been indications of improved economic conditions generally and in the semiconductor industry specifically, we cannot assure the extent to which such conditions will continue to improve or whether the improvement will be sustainable. If the global economic recovery is not sustained or the global economy experiences another recession, such adverse economic conditions could lead to the insolvency of key suppliers resulting in product delays, limit the ability of customers to obtain credit to finance purchases of our products, lead to customer insolvencies and also result in counterparty failures that may negatively impact our treasury operations. As a result, our business, financial condition and results of operations could be materially adversely affected in future periods as a result of economic downturns.

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

From the time we began operations as a separate entity in 2004 until we emerged from reorganization proceedings in 2009, we generated significant net losses and did not generate a profit for a full fiscal year. We may increase spending to support increased research and development and sales and marketing efforts. These expenditures may not result in increased revenue or an increase in the number of customers immediately or at all. Because many of our expenses are fixed in the short term, or are incurred in advance of anticipated sales, we may not be able to decrease our expenses in a timely manner to offset any shortfall of sales. If we cannot maintain profitability, the value of the enterprise may decline.

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

On June 12, 2009, we filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code in order to obtain relief from our debt, which was \$845 million as of December 31, 2008. Our plan of reorganization became effective on November 9, 2009. In connection with our emergence from the reorganization proceedings, we implemented fresh-start accounting in accordance with FASB Accounting Standards Codification Topic 852 (ASC 852) effective from October 25, 2009, which had a material effect on our consolidated financial statements. Thus, our consolidated financial statements after October 2009 will not be comparable in many respects to our consolidated financial statements for periods prior to our adoption of fresh-start accounting and prior to accounting for the effects of the reorganization proceedings.

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

We are subject to rules adopted by the SEC pursuant to Section 404 of the Sarbanes-Oxley Act, which requires us to include in our Annual Report on Form 10-K our management's report on, and assessment of the effectiveness of, our internal control over financial reporting. We are also required to periodically assess and report on the adequacy of our disclosure controls and

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

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

Our goal is to ensure that our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, with the participation of our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. However, our management, including our principal executive officer and principal financial officer, does not expect that our disclosure controls and procedures will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. See Item 9A. Controls and Procedures.

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

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

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

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

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

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

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

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

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

addition or loss of significant customers;

recruitment or departure of key personnel;

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

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price and volume fluctuations in the overall stock market;

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

subsequent sales of stock and other financings; and

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

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

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

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

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

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

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

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

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

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

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

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

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

prohibit action by written consent of our stockholders;

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

specify advance notice requirements for stockholder proposals and director nominations.

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

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

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

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

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

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

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