

**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, 2016

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

(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:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$0.01 per share	New York Stock Exchange
Preferred Stock Purchase Rights	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.

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	<input type="checkbox"/>	Accelerated Filer	<input checked="" type="checkbox"/>
Non-Accelerated Filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller Reporting Company	<input type="checkbox"/>

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. \$122,983,293.

As of January 31, 2017, the registrant had 33,252,894 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement relating to its 2017 annual meeting of stockholders will be incorporated by reference into Part III of this Annual Report on Form 10-K or included by amendment to this report within 120 days after the end of the fiscal year to which this report relates.

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PART I
INDUSTRY AND MARKET DATA

We have made statements in this Annual Report on Form 10-K for the year ended December 31, 2016 (this “2016 Form 10-K” or 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, but we have not independently verified those statements. We do not have any obligation to announce or otherwise make publicly available updates or revisions to forecasts contained in these documents.

Statements made in this Report, unless the context otherwise requires, include the use of the terms “us,” “we,” “our,” the “Company” and “MagnaChip” to 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 and terms 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.

Item 1. Business

General

We are a Korea-based designer and manufacturer of analog and mixed-signal semiconductor products for consumer, computing, communication, industrial, automotive and Internet of Things (“IoT”) applications. We provide technology platforms for analog, mixed-signal, power, high voltage, non-volatile memory, and Radio Frequency (“RF”) applications. We have a proven record of a 30-year operating history, large portfolio of approximately 2,198 registered novel patents and 166 pending novel patent applications and extensive engineering and manufacturing process expertise. Our business is comprised of two operating segments: Foundry Services Group and Standard Products Group. Our Foundry Services Group provides specialty analog and mixed-signal foundry services mainly for fabless and Integrated Device Manufacturer (“IDM”) semiconductor companies that primarily serve the consumer, computing, communication, industrial, automotive and IoT applications. Our Standard Products Group is comprised of two business lines: Display Solutions and Power Solutions. Our Display Solutions products provide flat panel display solutions to major suppliers of large and small flat panel displays. Our Power Solutions products include discrete and integrated circuit solutions for power management in consumer, communication and industrial applications.

Our wide variety of analog and mixed-signal semiconductor products and manufacturing services combined with our matured 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 electronics device 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 2,000 distinct products in each of the years ended December 31, 2016 and December 31, 2015, with a substantial portion of our revenues derived from a concentrated number of customers. Our largest Foundry Services Group customers include some of the leading semiconductor companies that design analog and mixed-signal products for the consumer, computing, communication, industrial, automotive and IoT applications.

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. 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 improving heat dissipation and extending battery life.

For the year ended December 31, 2016, we generated net sales of \$668.0 million, a net loss of \$29.6 million, Adjusted EBITDA of \$40.7 million and Adjusted Net Loss of \$4.5 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 Loss and a reconciliation to net income (loss) prepared in accordance with United States generally accepted accounting principles (“US GAAP”).

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.”

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On March 10, 2011, we completed our initial public offering. In connection with our initial public offering, we converted from a Delaware limited liability company to a Delaware corporation.

Our Products and Services

Our Display Solutions line of products provide flat panel display solutions to major suppliers of large and small flat panel displays, and include MagnaChip sensor products for mobile applications, industrial applications and home appliances. These products include source and gate drivers and timing controllers that cover a wide range of flat panel displays used in ultra high definition (UHD), high definition (HD), full high definition (FHD), light emitting diode (LED), 3D and organic light emitting diodes (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 polysilicon thin film transistor (LTFS TFT), as well as high-volume display technologies such as thin film transistors (a-Si TFTs). MagnaChip provides 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 other consumer electronics to industrial devices. The MagnaChip sensor families include e-Compass sensors, digital Hall sensors and temperature and humidity sensors. Our Display Solutions products represented 41.0%, 32.7% and 28.6% of our net sales for the fiscal years ended December 31, 2016, 2015 and 2014, 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 (MOSFETs), insulated gate bipolar mode transistor (IGBTs), power modules, AC-DC converters, DC-DC converters, LED driver, Solid State Drive (SSD) PMIC, switching regulators and linear regulators for a range of devices, including liquid crystal display (LCD), LED, 3D and UHD televisions, smartphones, mobile phones, desktop PCs, notebooks, tablet PCs, other consumer electronics, consumer appliance and industrial applications such as power suppliers, LED lighting and motor control. Our Power Solutions products represented 19.1%, 21.3% and 19.7% of our net sales for the fiscal years ended December 31, 2016, 2015 and 2014, respectively.

We also offer foundry services to fabless analog and mixed-signal semiconductor companies and IDMs that require differentiated, specialty analog and mixed-signal process technologies. 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 Foundry Services Group 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 Foundry Services Group business represented 39.8%, 45.9% and 51.6% of our net sales for the fiscal years ended December 31, 2016, 2015 and 2014, respectively.

We manufacture the majority of our products at our three fabrication facilities located in Korea. We have approximately 466 proprietary process flows we can utilize for our products and offer to our Foundry Services Group customers. Our manufacturing base serves both our display driver and power management businesses and Foundry Services Group 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 do not require substantial investment in leading edge process equipment, allowing us to utilize our facilities and equipment over an extended period of time with moderate required capital investments.

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In December 2014, we announced that our Board of Directors had adopted a plan to close our six-inch fabrication facility in Cheongju, South Korea (the “6-inch fab”). According to this plan, the 6-inch fab was closed on February 29, 2016. On April 4, 2016, we commenced a voluntary resignation program (the “Program”), which was available to certain manufacturing employees, including our 6-inch fab employees, through April 29, 2016.

Market Opportunity

The semiconductor market is large and is expanding its applications. 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. Electronics device 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 improving heat dissipation and extending battery life. These advanced generations of consumer devices are growing faster than the overall electronics device market.

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.

Requirements of Leading Electronic Devices 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 electronic devices manufacturers seek to differentiate their products by incorporating innovative semiconductor products that enable unique system-level functionality and enhance performance. These consumer electronics manufacturers seek to closely collaborate with semiconductor solutions providers that continuously develop new and advanced products, technologies, and manufacturing processes that enable state of the art features and functions, such as bright and thin displays, small form factor and energy efficiency.
- ***Fast Time-to-Market with New Products.*** As a result of rapid technological advancements and short product lifecycles, our target customers typically prefer suppliers who have a compelling pipeline of new products and can leverage a substantial intellectual property and technology base to accelerate product design and manufacturing when needed.
- ***Nimble, Stable and Reliable Manufacturing Services.*** Fabless semiconductor providers who rely on external manufacturing services often face rapidly changing product cycles. If these fabless companies are unable to meet the demand for their products due to issues with their manufacturing services providers, their profitability and market share can be significantly impacted. As a result, they prefer foundry 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 specialty analog and mixed-signal manufacturing capabilities to address their product performance and cost requirements.

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- **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 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 439 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 Electronics Devices 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. 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 electronics devices 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 electronics device end markets. We believe our expanding product and service offerings allow us to provide

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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 improve 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.
- ***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 foundry 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.
- ***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.
- ***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 contribute to improvement of our new product development and

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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 improving 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 Foundry Services Group customers, we seek to maximize return on our capital investments and our cash flow generation.

Our Technology

We continuously strengthen our advanced analog and mixed-signal semiconductor technology platform by developing innovative technologies and integrated circuit building blocks that enhance the functionality of electronics devices through brighter, thinner displays, enhanced image quality, smaller form factor and longer battery life. We seek to further build our technology platform through proprietary processes 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 analog and mixed-signal 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 TFT 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 466 process flows we can utilize for our products and offer to our Foundry Services Group customers. Our process technologies include standard CMOS, high voltage CMOS, ultra-low leakage high voltage CMOS, low noise CMOS with embedded BCD and BCDMOS and radio frequency silicon on insulator (RFSOI). 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, 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.

Foundry Services

We provide foundry services to analog and mixed-signal semiconductor companies. We have approximately 466 process flows we offer to our Foundry Services Group 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 Foundry Services Group targets customers who require differentiated, specialty analog and mixed-signal process technologies such as high voltage CMOS, non-volatile 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 Foundry Services Group customers vary from small fabless companies to large IDMs who serve consumer, computing, communication, industrial, automotive and IoT applications.

Process Technology Overview

- **Mixed-Signal.** Mixed-signal process technology is used in devices that require conversion of light and sound into electrical signals for processing and display. Our mixed-signal processes include advanced technologies such as low-noise process using triple gate, which uses less power at any given performance level.
- **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.

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

Process	Technology	Device	Application
Mixed-Signal	<ul style="list-style-type: none">• 0.13-0.5μm• Low noise• Ultra low power• Triple gate• RF SOI	<ul style="list-style-type: none">• Analog to digital converter• Digital to analog converter• Audio codec• Chipset• RF switch• Digital tunable capacitor• Fingerprint sensor	<ul style="list-style-type: none">• Smartphones• Tablet PCs• Notebooks• PC peripherals• DVD players
Power	<ul style="list-style-type: none">• 0.13*-0.35μm• BCD 40V-100V• Deep trench isolation• MOSFET• Schottky diode• Zener diode• Ultra high voltage• Thick metal	<ul style="list-style-type: none">• Power management• LED driver• High power audio amp• Power Over Ethernet• DC/DC converter	<ul style="list-style-type: none">• Smartphones• Tablet PCs• Notebooks• LCD TVs• LED lighting• LCD monitors• Automotive
High-Voltage CMOS	<ul style="list-style-type: none">• 0.11-2.0μm• 5V-200V• Bipolar	<ul style="list-style-type: none">• Display driver• CSTN driver	<ul style="list-style-type: none">• Smartphones• Tablet PCs• LCD TVs• Desktop PCs• LCD monitors
NVM	<ul style="list-style-type: none">• 0.13-0.5μm• EEPROM, Ultra low leakage• Slim flash*• eFlash• OTP• MTP	<ul style="list-style-type: none">• Microcontroller• Touch screen controller• Electronic tag memory• Hearing aid controller• Fingerprint sensor• Auto Focus IC*	<ul style="list-style-type: none">• Smartphones• Tablet PCs• Industrial applications• Medical equipment• Automotive

* In customer qualification stage

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 VGA (640 x 480) 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 1.62 to 3.6 volts and output voltages from 30 to 45 volts. Lower input voltage results in lower power consumption and electromagnetic interference (EMI).
- **Gamma Curve.** The relationship between the light passing through a pixel and the voltage applied to the pixel by the source driver is referred to as the gamma curve. The gamma curve of the source driver can correct some imperfections in picture quality in a process generally known as gamma correction. Some advanced display drivers feature up to three independent gamma curves to facilitate this correction.
- **Driver Interface.** Driver interface refers to the connection between the timing controller and the display drivers. Display drivers increasingly require higher bandwidth interface technology to address the larger data transfer rate necessary for higher definition images. The principal types of interface technologies are embedded clock point to point interface (EPI), advanced intra panel interface (API), mini-low voltage differential signaling (m-LVDS), unified standard interface for notebook and monitor (USI-GF), unified standard interface (USI), unified standard interface for TV (USI-T) 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, FHD TVs, HD TVs, LED TVs, 3D TVs, OLED TVs, LCD monitors, notebooks, tablet PCs, public information displays and automotive.

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.

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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:

<u>Product</u>	<u>Key Features</u>	<u>Applications</u>
TFT-LCD Source Drivers	<ul style="list-style-type: none">• 480 to 1,542 output channels• 6-bit (262 thousand colors), 8-bit (16 million colors), 10-bit (1 billion colors)• Output voltage ranging from 9V to 18V• Low power consumption and low EMI• COF package types• EPI, m-LVDS, AAPI, USI interface technologies	<ul style="list-style-type: none">• UHD/HD/LED/3D TVs• Notebooks• LCD/LED monitors
TFT-LCD Gate Drivers	<ul style="list-style-type: none">• 272 to 960 output channels• Output voltage ranging from 30V to 45V• COF and COG package types	<ul style="list-style-type: none">• Tablet PCs• HD/LED/3D TVs• Notebooks• Automotive
Timing Controllers	<ul style="list-style-type: none">• Wide range of resolutions• EPI, m-LVDS, MIPI, USI-T interface technologies• Input voltage ranging from 1.6V to 3.6V	<ul style="list-style-type: none">• Tablet PCs• Public information display
AMOLED Source Drivers	<ul style="list-style-type: none">• 960 output channels• 10 bit (1 billion colors)• Output voltage: 18V• COF package type• EPI interface technology	<ul style="list-style-type: none">• OLED TVs

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 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.

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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	<ul style="list-style-type: none">• Resolutions of QHD, HD720, WXGA, FHD and WQHD*• Color depth of 16 million• MIPI, eRVDS interface• Logic-based OTP• ABC, ACL	<ul style="list-style-type: none">• Smartphones• Game consoles• Digital still cameras• Tablet PCs• Virtual reality headsets
LTPS	<ul style="list-style-type: none">• Resolutions of VGA, WSVGA, WVGA and DVGA• Color depth of 16 million• MDDI, MIPI interface• Logic-based OTP• Separated gamma control	<ul style="list-style-type: none">• Smartphones• Digital still cameras
a-Si TFT	<ul style="list-style-type: none">• Resolutions of WQVGA and HVGA• Color depth of 16 million• RSDS, MDDI, MIPI interface• CABC• Separated gamma control	<ul style="list-style-type: none">• Mobile phones• Digital still cameras• Automotive

* In customer qualification stage

We also provide a range of intelligent sensor product families featuring 0.18 micron analog and mixed-signal technology with low power consumption.

Power Solutions

We develop, manufacture and market power management solutions for a wide range of end-market customers. The products include MOSFETs, IGBTs, power modules, AC-DC converters, DC-DC converters, LED drivers, switching regulators and linear regulators, for a range of devices, including LCD, LED, 3D and UHD televisions, smartphones, mobile phones, desktop PCs, notebooks, tablet PCs, other consumer electronics, consumer appliances and industrial applications such as power suppliers, LED lighting and motor control.

- **MOSFETs.** Our MOSFETs include low-voltage Trench MOSFETs, 20V to 150V, high-voltage Planar MOSFETs, 200V through 700V, and super junction MOSFETs, 500V through 800V. 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, 3D and UHD 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.
- **IGBTs.** Our IGBTs include 650V to 1200V field stop trench IGBTs. IGBTs are used in high power industrial applications, such as UPSs, power supplies, motor drives, solar inverters, welding machines and consumer appliances.
- **Power Modules.** Power modules are used in broad range of medium-to-high power industrial and consumer applications such as UPSs, power supplies, motor drives, solar inverters, welding machines and consumer appliances.

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- **AC-DC Converters and DC-DC Converters.** We offer AC-DC and DC-DC converters targeting mobile applications and high power applications like LCD, LED, 3D and UHD televisions, notebooks, smartphones, mobile phones set-top boxes and display modules. We expect our AC-DC and DC-DC converters will meet customer green power requirements by featuring wide input voltage ranges, high efficiency and small size.
- **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 pulse width modulation (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.
- **Switching Regulators and Linear Regulators.** We also provide analog switching and linear regulators for mobile and consumer applications. Our products are designed for high efficiency and low power consumption in mobile applications.
- **SSD PMIC.** We also provide SSD PMIC for notebooks. Our product is designed for high frequency switching, high efficiency and pulse frequency modulation (PFM) function to reduce consumption power in low load of converters.

Our power management solutions enable customers to increase system stability and improve 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:

<u>Product</u>	<u>Key Features</u>	<u>Applications</u>
Low Voltage MOSFET	<ul style="list-style-type: none"> • Voltage options of 12V-150V • Advanced Trench MOSFET Process • High cell density • Advanced packages to enable reduction of PCB mounting area 	<ul style="list-style-type: none"> • Smartphones and mobile phones • Tablet PCs • Notebooks • LCD/LED/3D/UHD TVs • Desktop PCs • Servers, Industrial applications
High Voltage MOSFET	<ul style="list-style-type: none"> • Voltage options of 200V-700V • R2FET (rapid recovery) option to shorten reverse diode recovery time • Zenor FET option for MOSFET protection for abnormal input • Advanced Planar MOSFET Process • Advanced packages to enable reduction of PCB mounting area 	<ul style="list-style-type: none"> • Adaptors for tablet PC/mobile phone/smartphone • Power supplies • Lighting (ballast, HID, LED) • Industrial applications • LCD/LED/3D/UHD TVs
Super Junction MOSFET	<ul style="list-style-type: none"> • Voltage options of 500V-800V • Low $R_{DS(ON)}$ • Epi stack process 	<ul style="list-style-type: none"> • LCD/LED/3D/UHD TVs • Lightings applications (ballast, HID, LED) • Smartphones • Power supplies • Servers • Industrial applications

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<u>Product</u>	<u>Key Features</u>	<u>Applications</u>
IGBTs	<ul style="list-style-type: none">• Voltage options of 650V/1200V• Field Stop Trench IGBT• Current options from 25A to 60A	<ul style="list-style-type: none">• Industrial applications• Consumer appliances
Power Modules	<ul style="list-style-type: none">• Voltage options of 400V/600V/ 1200V• IGBT modules/FRD modules• Current options from 50A to 300A	<ul style="list-style-type: none">• Industrial applications• Consumer appliances
LED Backlighting Drivers	<ul style="list-style-type: none">• High efficiency, wide input voltage range• Advanced BCDMOS process• OCP, SCP, OVP and UVLO protections• Accurate LED current control and multi-channel matching• Programmable current limit, boost up frequency	<ul style="list-style-type: none">• Tablet PCs• Notebooks• Smartphones• LED/3D/UHD TVs• LED monitors
LED Lighting Drivers	<ul style="list-style-type: none">• 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	<ul style="list-style-type: none">• AC and DC LED lighting
AC-DC Converter	<ul style="list-style-type: none">• Wide control range for high power application (>150W)• Advanced BCDMOS process• High Precision Voltage Reference• Very low startup current consumption	<ul style="list-style-type: none">• LCD/LED/3D/UHD TVs• Power supplies
DC-DC Converters	<ul style="list-style-type: none">• High efficiency, wide input voltage range• Advanced BCDMOS process• Fast load and line regulation• Accurate output voltage• OCP, SCP and thermal protections	<ul style="list-style-type: none">• LCD/LED/3D/UHD TVs• Smartphones• Mobile phones• Notebooks• Set-top boxes
Switching Regulators and Linear Regulators	<ul style="list-style-type: none">• Single and multi-regulators• Low Noise Output regulators• Wide range of input voltage and various output current• CMOS and BCDMOS processes	<ul style="list-style-type: none">• Mobile phones• Notebooks

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<u>Product</u>	<u>Key Features</u>	<u>Applications</u>
SSD PMIC	<ul style="list-style-type: none">• High current buck• PFM function• High frequency switching• High efficiency• High integration technology• Small QFN package	<ul style="list-style-type: none">• Notebooks

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 Foundry Services Group, 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 Foundry Services Group 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, 2016, 2015 and 2014, we derived 77%, 69% and 76% of net sales through our direct sales force, respectively, and 23%, 31% and 24% 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, 2016, 2015 and 2014, were \$72.2 million, \$83.4 million and \$92.8 million, respectively, representing 10.5%, 13.2% and 13.3% 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 foundry services to analog and mixed-signal semiconductor companies. For the years ended December 31, 2016, 2015 and 2014, our ten largest customers accounted for 64%, 64% and 61% of our net sales, respectively. For the year ended December 31, 2016, sales to Samsung Display Corporation represented 23.5% of our net sales and 57.3% of our Display Solutions division's net sales, and sales to LG Display represented 11.4% of our net sales and 27.9% of our Display Solutions division's net sales. For the year ended December 31, 2015, sales to LG Display represented 15.2% of our net sales and 46.4% of our Display Solutions division's net sales, and sales to Samsung Display Corporation represented 11.0% of our net sales and 33.6% of our Display Solutions division's net sales. For the year ended December 31, 2014, sales to Samsung Display Corporation represented 11.4% of our net sales and 39.9% of our Display Solutions division's net sales, and sales to LG Display represented 10.7% of our net sales and 37.5% of our Display Solutions division's net sales. For the year ended December 31, 2016, we recorded revenues of \$33.2 million from customers in the United States and \$654.8 million from all foreign countries, of which 33.5%

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was from Korea, 16.5% from Taiwan, 5.0% from the United Kingdom and 37.3% from Greater China. For the year ended December 31, 2015, we recorded revenues of \$51.2 million from customers in the United States and \$582.5 million from all foreign countries, of which 41.5% was from Korea, 18.5% from Taiwan, 6.4% from Japan and 28.0% from Greater China. For the year ended December 31, 2014, we recorded revenues of \$91.3 million from customers in the United States and \$606.9 million from all foreign countries, of which 43.9% was from Korea, 19.2% from Taiwan, 4.3% from Japan and 22.7% from Greater China.

Intellectual Property

As of December 31, 2016, our portfolio of intellectual property assets included approximately 3,020 registered patents and 414 pending patent applications. Approximately 2,198 and 166 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 1,070 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.

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 Foundry Services Group 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 2,864 employees (full- and part-time) as of December 31, 2016, of which 418 were involved in sales, marketing, general and administrative, 439 in research and development (including 234 with advanced degrees), 116 in quality, reliability and assurance and 1,891 in manufacturing (comprised of 279 in engineering and 1,612 in operations). As of December 31, 2016, our workforce consisted of 2,864 employees, of which 1,743 employees, or approximately 61% of our workforce, were represented by the MagnaChip Semiconductor Labor Union.

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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. Since 2015, our Korean subsidiary has been 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 is required to meet its allocated target by either reducing the emission or purchasing the allowances from other participants in the emission trading market. Another example is the newly reinforced regulations on chemicals under Chemicals Control Act and K-REACH, which came into effect on January 1, 2015. Under these laws, our Korean subsidiary is required to comply with various requirements to report, evaluate, manage and ensure the safe usage of the chemicals used in its facilities. 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.

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 Securities and Exchange Commission (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, 2016 and 2015—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, 2015 and December 31, 2014—Net Sales by Geographic Region” and “Note 17. 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

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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., 60 South Market Street, Suite 750, San Jose, CA 95113, Attention: General Counsel and Secretary; the telephone number at that address is (408) 625-5999.

Executive Officers of the Company

The following table sets forth certain information regarding our current executive officers:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Young-Joon (YJ) Kim	52	Chief Executive Officer and Director
Jonathan Kim	42	Chief Financial Officer, Executive Vice President and Chief Accounting Officer
Theodore Kim	47	Chief Compliance Officer, Executive Vice President, General Counsel and Secretary
Tae Jong Lee	54	Executive Vice President and General Manager, Foundry Services Group
Woung Moo Lee	54	Executive Vice President and General Manager, Standard Products Group

Young-Joon (YJ) Kim, Chief Executive Officer and Director. Mr. YJ Kim became our director and Chief Executive Officer in May 2015, after serving as Interim Chief Executive Officer since May 2014. Mr. YJ Kim served as our General Manager, Semiconductor Manufacturing Services, from May 2015 to November 2015 and previously served as our General Manager, Display Solutions Division and Executive Vice President from May 2013 to May 2015. Prior to joining our Company, Mr. YJ Kim served at Cavium, Inc., a leading provider of semiconductor products that enable secure and intelligent processing for enterprise, datacenter, cloud, wired and wireless networking, from June 2006 to April 2013, most recently as Vice President, Infrastructure Processor Division, and General Manager at the Multi-Core Processor Group. Prior to Cavium, Mr. YJ Kim served as Core Team Lead and General Manager of Tolapai Program at Intel Corporation from August 2004 to June 2006. YJ Kim also served as Director of Marketing at Samsung Semiconductor, Inc. from June 1996 to May 1998. In 1988, Mr. YJ Kim began his career as a product engineer at Intel Corporation. In 1998, Mr. Kim cofounded API Networks, a joint venture between Samsung and Compaq specializing in alpha processors, where he served as the head of product management, worldwide sales and business development. Mr. YJ Kim has over 27 years of experience in the semiconductor industry, covering engineering, marketing, product development, strategic planning and general management for microprocessors, network processors, FLASH, EPROM, analog, mixed-signal, sensors, workstations and servers. Mr. YJ Kim holds B.S. and M.Eng degrees in Electrical Engineering from Cornell University.

Jonathan Kim (J. Kim), Chief Financial Officer, Executive Vice President and Chief Accounting Officer. Mr. J. Kim was appointed our Chief Financial Officer and Executive Vice President in May 2015, after serving as our Interim Chief Financial Officer, Chief Accounting Officer and Senior Vice President since March 2014. Prior to joining our company, Mr. J. Kim served since July 2010 as the Chief Financial Officer of StartForce,

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Inc., a VC backed desktop virtualization company, which was acquired in February 2011 by ZeroDesktop, Inc., a leading developer of next-generation desktop virtualization and cloud computing solutions. Mr. J. Kim continued to serve as the Chief Financial Officer at ZeroDesktop through March 2014. Mr. J. Kim also served as a principal at a Silicon Valley based investment and advisory firm where he led investments in startup companies in the U.S. and Korea. Mr. J. Kim began his career in public accounting and held various positions with Deloitte for nearly 10 years, serving Global Fortune 500 and U.S. multinational publicly traded clients in the Technology, Media & Telecommunication sectors. Mr. J. Kim holds a B.A. degree in Business Administration from the Foster School of Business at the University of Washington and is a Certified Public Accountant.

Theodore Kim (T. Kim), Chief Compliance Officer, Executive Vice President, General Counsel and Secretary. Mr. T. Kim became our Chief Compliance Officer and Executive Vice President in May 2015, and became our General Counsel and Secretary in November 2013. Mr. T. Kim previously served as our Senior Vice President from November 2013 to May 2015. Prior to joining our Company, Mr. T. Kim served as Head Lawyer, Global Business Development at Samsung Fire & Marine Insurance from October 2012 to October 2013. Mr. T. Kim was employed by Gibson, Dunn & Crutcher LLP, a law firm, from October 2005 to July 2012, serving most recently as Of Counsel. Prior to that, he served as Foreign Legal Consultant at Kim & Chang, a law firm in Korea, from 2001 to 2005. Mr. Kim holds a B.A. degree in Economics and a B.S. degree in Mechanical Engineering from the University of California, Irvine, and a J.D. degree from the University of California, Los Angeles, School of Law.

Tae Jong Lee, Executive Vice President and General Manager, Foundry Services Group. Mr. Tea Jong Lee became our General Manager, Foundry Services Group, in November 2015 and became our Executive Vice President in December 2011, after serving successively as Senior Vice President and Vice President and General Manager, Corporate Engineering, since September 2007. Prior to joining our Company, Mr. Lee served as Director of the Technology Development Division, Chartered Semiconductor Manufacturing, in Singapore from 1999 to August 2007. Mr. Lee holds B.S. and M.S. degrees from Seoul National University, and a Ph.D in Physics from the University of Texas at Dallas.

Woung Moo Lee, Executive Vice President and General Manager, Standard Products Group. Mr. Woung Moo Lee became our Executive Vice President and General Manager, Standard Products Group in November 2015. Mr. Lee previously served as our Senior Vice President, Korea Sales from 2013. Prior to joining our Company, Mr. Lee was one of the founding executives and served as Vice President, Global Strategy and Marketing, Samsung LED Co., Ltd. from 2009 to 2011. In 1984, Mr. Lee began his career as a memory semiconductor design engineer and served as Vice President of Memory Strategy & Marketing Team at Samsung Electronics Co., Ltd. until 2009. Mr. Lee received the “Proud Samsung Employee Award” in 2005 and holds a B.S. degree in Electronic Engineering from Inha University.

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 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

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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 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.

Our restructuring activities and dispositions of assets and businesses could result in lost business and other costs that could have a material adverse effect on our results of operations.

From time to time, we may choose to sell assets, restructure business operations, shut down manufacturing lines or otherwise dispose of assets and businesses as part of management's strategies to better align our product offerings with market demands and our customers' needs. In connection with these activities, we face risks that we will disrupt service to our customers, lose business and incur significant costs related to such activities. These risks include potential damage to our reputation and customer relationships if we are unable to effectively transition such customer relationships to other production lines or products or if we cannot effectively manage our supplier and vendor relationships during such activities. In addition, we may also face claims or costs associated with transitioning or eliminating certain employee positions and modifying or terminating vendor relationships in connection with those exit activities.

We have experienced recent net losses and have relied on our cash reserves to fund our operations and implement our business plans and strategy. If we are unable to improve cash flows from operating activities or obtain additional capital to meet our liquidity and capital resource requirements to pursue our turnaround and growth strategies, our business and results of operations may be adversely affected.

In the past several quarters, we have experienced net losses from operations as we have begun to shift our business and operations to respond to changes in consumer and customer demands. As a result of these trends, as well as the extraordinary costs we have incurred and will continue to incur associated with our restatement of prior period financial data and related legal proceedings, we have experienced a deterioration of our cash reserves over the same period. If we continue to experience negative cash flows from operating activities, we will need to rely further on our cash reserves to fund our operations or seek additional capital. There can be no assurance that any additional equity or debt financing would be available to us, or if available, that such financing would be on favorable terms to us. Accordingly, if we are unable to obtain additional capital or our business does not generate sufficient cash flows from operating activities to fund our working capital needs and planned capital expenditures, and our cash reserves are depleted, we may need to take various actions, such as down-sizing and/or eliminating certain operations, which could include additional exit costs, reducing or delaying capital expenditures, selling assets, or other restructuring actions. There can be no assurance that we would be successful in taking such actions and, in any event, such actions may result in a material adverse effect on our business and results of operations.

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

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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 Foundry Services Group 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.

Poor global economic conditions may negatively affect our future business, results of operations and financial condition. .

Recent macroeconomic news and global financial markets instability related to concerns over economic slowdown in China and other regions, as well as the global effects of falling crude oil prices, have created uncertainty which may negatively affect the demand for our products and services. Further deterioration in economic conditions in the markets in which we or our customers operate could lead to reduced consumer spending in the semiconductor market generally and our target markets specifically, which could cause U.S. and foreign businesses to slow spending on our products, lead to the distress or insolvency of key suppliers or customers, or impact the ability of our customers to obtain credit for purposes of purchasing our products. Any such sustained or worsening global economic conditions could materially and adversely affect our future business, results of operations and financial conditions.

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

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

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

We generally do not obtain firm, long-term purchase commitments from our customers. Customers may cancel their orders, reduce quantities or delay production for a number of reasons. Cancellations, reductions or

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

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

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

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, 2016, 2015 and 2014, our ten largest customers accounted for 64%, 64% and 61% of our net sales, respectively. For the year ended December 31, 2016, sales to Samsung Display Corporation represented 23.5% of the Company's net sales and 57.3% of our Display Solutions division's net sales, and sales to LG Display represented 11.4% of the Company's net sales and 27.9% of our Display Solutions division's net sales. For the year ended December 31, 2015, sales to LG Display represented 15.2% of the Company's net sales and 46.4% of our Display Solutions division's net sales, and sales to Samsung Display Corporation represented 11.0% of the Company's net sales and 33.6% of our Display Solutions division's net sales. For the year ended December 31, 2014, sales to Samsung Display Corporation represented 11.4% of the Company's net sales and 39.9% of our Display Solutions division's net sales, and sales to LG Display represented 10.7% of the Company's net sales and 37.5% of our Display Solutions division's net sales. For the year ended December 31, 2016, we recorded revenues of \$33.2 million from customers in the United States and \$654.8 million from all foreign countries, of which 33.5% was from Korea, 16.5% from Taiwan, 5.0% from the United Kingdom and 37.3% from Greater China. 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.

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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 foundry services at competitive prices.

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

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

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

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

We expend considerable resources on winning competitive selection processes, known as design-wins, to develop semiconductor products for use in our customers' products. These selection processes are typically lengthy and can require us to incur significant design and development expenditures. We may not win the competitive selection process and may never generate any revenue despite incurring significant design and

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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 Foundry Services Groups customers. To the extent that our Foundry Services Group 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 foundry services offerings. During each stage of research and development, there is a substantial risk that we will have to abandon a potential product or service offering that is no longer marketable and in which we have invested significant resources. In the event we are able to develop viable new products or service offerings, a significant amount of time will have elapsed between our investment in the necessary research and development effort and the receipt of any related revenues.

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

Our growth strategy is to leverage our advanced analog and mixed-signal technology platform, continue to innovate and deliver new products and services, increase business with existing customers, broaden our customer base, aggressively grow our power business, drive execution excellence and focus on specialty process technologies. 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, 2016 and 2015. Moreover, our foreign currency gain or loss would be affected by changes in the exchange rate between the Korean won and the U.S. dollar as a substantial portion of non-cash translation gain or loss is associated with the intercompany long-term loans to our Korean subsidiary, which is denominated in U.S. dollars. As of December 31, 2016, the outstanding intercompany loan balance including accrued interests between our Korean subsidiary and our Dutch subsidiary was \$598 million. Our Dutch subsidiary uses U.S. dollar as their functional currency. 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 Exchangeable Notes (defined below) or 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 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 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 forward and zero cost collar contracts must be cash collateralized if our exposure exceeds certain specified thresholds. These forward and zero cost collar contracts may be terminated by the counterparty in a number of circumstances, including 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.

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.

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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, 2016, 1,743 employees, or approximately 61% 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.

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 Foundry Services Group 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, Singapore, Thailand and Austria. 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 cooperate with independent foundries to produce certain advanced technology Display Solutions products, and the failure of such independent foundries to satisfy our demand could materially disrupt our business.

We use independent foundry services for certain of our AMOLED Display Solutions products that require more advanced technology than is available in our fabrication facilities. Silicon wafer production at these facilities is allocated solely by our vendors and beyond our direct control. Therefore, any disruption in wafer supply from these vendors could have a material impact on our revenue and results of operations.

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

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

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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's 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. The company's organizational structure and other tax positions are subject to review by tax authorities in the local and other jurisdictions where we operate our business.

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

We attempt to protect our intellectual property rights, both in the United States and in foreign countries, through a combination of patent, trademark, copyright, mask works and trade secret laws, as well as licensing agreements and third-party nondisclosure and assignment agreements. Because of the differences in foreign trademark, patent and other laws concerning proprietary rights, our intellectual property rights may not receive the same degree of protection in foreign countries as they would in 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 failure to obtain or maintain adequate protection of our intellectual property rights for any reason could have a material adverse effect on our business, results of operations and financial condition.

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. Many of our patents are subject to cross licenses, several of which are with our competitors. 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. Further, it is possible that others will independently develop the same or similar technologies, even without access to our proprietary technologies.

We rely on our trademarks, trade names, and brand names to distinguish our products from the products of our competitors, and have registered or applied to register many of these trademarks. We cannot assure you that our trademark applications will be approved. Third parties may also oppose our trademark applications, or otherwise challenge our use of the trademarks. In the event that our trademarks are successfully challenged, we could be forced to rebrand our products, which could result in loss of brand recognition, and could require us to devote resources advertising and marketing new brands. Further, we cannot assure you that competitors will not infringe our trademarks, or that we will have adequate resources to enforce our trademarks.

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

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could result in substantial costs to us and divert our resources. Any litigation could result in substantial costs to us and divert our resources, and we cannot assure you that we will prevail. Any claims of intellectual property infringement or misappropriation against us, even those without merit, could require us 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 the accused products;
- redesign, reengineer or rebrand our products, if feasible;
- expend significant resources to develop or acquire non-infringing technologies;
- discontinue processes; or
- obtain licenses to a third party's intellectual property.

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.

We license certain intellectual property from third parties. 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 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.

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. Among them is the Act on Remediation and Compensation for Damages arising from Environmental Contamination which came into effect on January 1, 2016 and provides for strict liability of business entities in violation of the act and alleviates the burden of proof for the damaged party. As a result, we have increased potential exposure to liability for environmental contaminations that might have existed in the past or would arise in the future. 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

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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.

Since 2015, our Korean subsidiary has been 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 is required to meet its allocated target by either reducing the emission or purchasing the allowances from other participants in the emission trading market. Reduction of our emissions or energy consumption may result in 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.

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 the future of North Korea's political leadership and concern regarding its implications for political and economic stability in the region. Although Kim Jong-il's third son,

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Kim Jong-eun, has assumed power as his father's designated successor, the long-term outcome of such leadership transition remains uncertain. 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. Some of the significant incidents in recent years include the following:

- In August 2015, two Korean soldiers were injured in a landmine explosion near the Korean demilitarized zone. Claiming the landmines were set by North Koreans, the Korean army re-initiated its propaganda program toward North Korea utilizing loudspeakers near the demilitarized zone.
- In January 2016, North Korea claimed that it had successfully conducted a nuclear bomb test. In February 2016, North Korea launched what it claimed was a satellite rocket, but what is viewed by others as a front for a ballistic missile test that could ultimately be used to carry nuclear bomb. In response to the launch, it has been reported that Korea and the United States are discussing the deployment of the Terminal High Altitude Area Defense (THAAD) missile defense system to United States forces stationed in Korea. It has been reported that the United Nations Security Council adopted a unanimous resolution condemning the missile launch.
- Following North Korea's nuclear bomb test and rocket launch, in February 2016, the Korean government announced that it will shut down Kaesong Industrial Complex, a joint venture area with North Korea where over 100 South Korean companies run manufacturing facilities. North Korea responded by declaring Kaesong Industrial Complex a military control zone, ordering South Koreans to leave the complex, and forbidding them to take assets other than personal belongings. The shutdown is the second one since operations commenced at Kaesong Industrial Complex in 2005; the complex had been shut down once before, for five months in 2013. In addition, North Korea cut off all 48 telephone lines between North Korean and South Korean agencies.

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

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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, 2016, our total indebtedness was \$224.3 million, which represents the principal amount outstanding under our 6.625% Senior Notes due 2021, excluding \$3.2 million of unamortized discount and debt issuance costs. In January 2017, we incurred \$86.25 million of additional indebtedness, which represents the aggregate principal amount of 5.00% Exchangeable Senior Notes due 2021 (“Exchangeable Notes”) issued by MagnaChip Semiconductor S.A. We are permitted under the indentures governing our outstanding Exchangeable Notes and 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 debt or fail to comply with the financial or other restrictive covenants contained in the indentures governing our outstanding Exchangeable Notes and 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;
- 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. A rating may be subject to revision or withdrawal at any time by the assigning rating agency. We may experience downgrades in our debt ratings in the future. Any lowering of our debt ratings would adversely impact our ability to raise additional debt financing and increase the cost of any such financing that is obtained. In the event any ratings downgrades are significant, we may choose not to incur new debt or refinance existing debt if we are unable to incur or refinance such debt at favorable interest rates or on favorable terms.

If our cash flows and capital resources are insufficient to fund our debt service obligations or if we are unable to refinance existing indebtedness on favorable terms, we may be forced to reduce or delay capital expenditures, sell assets, seek additional capital or restructure or refinance our indebtedness. These alternative measures may not be successful and 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 indentures governing our outstanding Exchangeable Notes and 2021 Notes restrict our ability to dispose of assets and use

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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 Exchangeable Notes and 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 Exchangeable Notes and 2021 Notes, other debt and any other obligations. Our ability to make payments on our outstanding Exchangeable Notes and 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 indentures governing our outstanding Exchangeable Notes and 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 Exchangeable Notes and 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 Exchangeable Notes and 2021 Notes.

We anticipate that payments under the notes and our outstanding Exchangeable Notes and 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 and MagnaChip Semiconductor S.A. may not have sufficient funds to make payments on the notes or our outstanding Exchangeable Notes and 2021 Notes.

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

The indentures governing the notes and our outstanding Exchangeable Notes and 2021 Notes contain, and our future debt agreements will likely contain, numerous covenants imposing financial and operating restrictions

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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;
- 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.

We may not have the ability to raise the funds necessary to repurchase the Exchangeable Notes upon a fundamental change, and our future debt may contain limitations on our ability to repurchase the Exchangeable Notes.

Holders of the Exchangeable Notes have the right to require us to repurchase their notes upon the occurrence of a fundamental change at a fundamental change repurchase price equal to 100% of the principal amount of the Exchangeable Notes to be repurchased, plus accrued and unpaid interest, if any. However, we may not have enough available cash or be able to obtain financing at the time we are required to make repurchases of Exchangeable Notes surrendered therefor. In addition, our ability to repurchase the Exchangeable Notes may be limited by law, by regulatory authority or by agreements governing our future indebtedness. Our failure to repurchase Exchangeable Notes at a time when the repurchase is required by the indenture would constitute a default under the indenture. A default under the indenture or the fundamental change itself could also lead to a default under agreements governing our future indebtedness. If the repayment of our then-existing indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness and repurchase the Exchangeable Notes.

A fundamental change may adversely affect us.

A fundamental change could have a negative effect on us and the trading price of the common stock and Exchangeable Notes. Furthermore, the fundamental change provisions, including the provisions requiring the increase in the exchange rate for exchanges in connection with a fundamental change prior to the maturity date, may in certain circumstances make it more difficult or discourage a takeover of our company and the removal of incumbent management.

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Servicing our debt requires a significant amount of cash, and we may not have sufficient cash flow from our business to pay our substantial debt.

Our ability to make scheduled payments of the principal of, to pay interest on or to refinance our indebtedness depends on our future performance, which is subject to economic, financial, competitive and other factors beyond our control. Our business may not continue to generate cash flow from operations in the future sufficient to service our debt and make necessary capital expenditures. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance our indebtedness will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations.

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 our 2009 reorganization proceedings under Chapter 11 of the United States Bankruptcy Code, which we refer to as our “reorganization proceedings”, we generated significant net losses and did not generate a profit for a full fiscal year. In addition, since 2013, we have again had substantial net losses despite some improvements made in 2016. 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.

Despite our current debt levels, we may still incur substantially more debt or take other actions which would intensify the risks discussed above.

Despite our current consolidated debt levels, we and our subsidiaries, including the Issuer, may be able to incur substantial additional debt in the future, some of which may be secured debt, subject to the restrictions contained in our debt instruments. We will not be restricted under the terms of the indenture governing the notes from incurring additional debt, securing existing or future debt, recapitalizing our debt or taking a number of other actions that are not limited by the terms of the indenture governing the notes that could have the effect of diminishing our ability to make payments on the notes when due.

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, 2016, we recognized aggregate restructuring and impairment charges of \$24.1 million, which consisted of \$21.2 million of impairment charges and \$2.9 million of restructuring charges. In the future, we may need to record additional impairment charges or to further restructure our business or incur additional restructuring charges, any of which could have a material adverse effect on our results of operations or financial condition.

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

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

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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;
- 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;
- 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.

The concentration of ownership of our common stock by certain stockholders 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.

Our Rights Plan and 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.

On March 5, 2015, our Board of Directors adopted a stockholder rights plan (the "Rights Plan") and declared a dividend of one preferred stock purchase right on each share of the Company's common stock

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outstanding at the close of business on March 16, 2015. The Company amended the Rights Plan on March 2, 2016 and September 2, 2016. As amended, each right will entitle the holder to purchase one one-thousandth of a share of our Series A Junior Participating Preferred Stock. Under certain circumstances, if a person or group acquires 12.5% (or 20% in the case of a passive institutional investor) or more of our outstanding common stock, holders of the rights (other than the person or group triggering their exercise) will be able to purchase for each share of common stock owned, \$12 worth of shares of the Company's common stock having a market value of twice such price. The rights expire in March 2017 unless extended by our Board of Directors. Because the rights may substantially dilute the stock ownership of a person or group attempting to acquire us without the approval of our Board of Directors, our Rights Plan could make it more difficult for a third party to acquire us (or a significant percentage of our outstanding capital stock) without first negotiating with our Board of Directors regarding such acquisition.

In addition, 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;
- 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.

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

- the transaction is approved by the board of directors before the date the interested stockholder attained that status;
- upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction commenced; or
- on or after such date, the business combination is approved by the board of directors and authorized at a meeting of stockholders, and not by written consent, by at least two-thirds of the outstanding voting stock that is not owned by the interested stockholder.

In general, DGCL Section 203 defines a business combination to include the following:

- any merger or consolidation involving the corporation and the interested stockholder;
- any sale, transfer, pledge or other disposition of 10% or more of the assets of the corporation involving the interested stockholder;
- subject to certain exceptions, any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder;
- any transaction involving the corporation that has the effect of increasing the proportionate share of the stock of any class or series of the corporation beneficially owned by the interested stockholder; or

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

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

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

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

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

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

Our manufacturing operations consist of three fabrication facilities located in Korea at two sites in Cheongju and one in Gumi. Our facilities have a combined capacity of approximately 115,000 eight-inch equivalent wafers per month. We manufacture wafers utilizing geometries ranging from 0.11 to 0.50 microns. The Cheongju facilities have three main buildings totaling 164,058 square meters devoted to manufacturing and development. The Gumi facility has one main building with 41,022 square meters devoted to manufacturing, testing and packaging.

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

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

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

Although we own our manufacturing facilities, we are party to a land lease and easement agreement with SK Hynix pursuant to which we lease the land for our facilities in Cheongju, Korea from SK Hynix for an

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indefinite term. Because we share certain facilities with SK Hynix, several services that are essential to our business are provided to us by or through SK Hynix under our general service supply agreement with SK Hynix. These services include electricity, bulk gases and de-ionized water, campus facilities and housing, wastewater and sewage management, environmental safety and certain utilities and infrastructure support services. The services agreement continues for an indefinite term subject to each party having a right to terminate in the event of an uncured breach by the other party.

Item 3. Legal Proceedings

Securities Class Action Complaints

On March 12, 2014, a purported class action was filed against the Company and certain of the Company's now-former officers. On April 21, 2015, a related purported class action lawsuit (Okla. Police Pension & Retirement Sys. v. MagnaChip Semiconductor Corp., et al., No. 3:15-cv-01797) was filed against the Company, certain of the Company's current directors and former and now-former officers, a shareholder of the Company, and certain financial firms that acted as underwriters of the Company's public stock offerings. On June 15, 2015, these two class action lawsuits were consolidated. On June 26, 2015, an amended complaint was filed in the consolidated action, against the Company, certain of the Company's current directors and former officers, a shareholder of the Company, and certain financial firms that acted as underwriters of the Company's public stock offerings on behalf of a putative class consisting of all persons other than the defendants who purchased or acquired the Company's securities between February 1, 2012 and February 12, 2015 and a putative subclass consisting of all purchasers of the Company's common stock pursuant to or traceable to a shelf registration statement and prospectus issued in connection with the Company's February 6, 2013 public stock offering. The consolidated amended complaint asserted claims on behalf of the putative class for (i) alleged violations of Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder by the Company and certain of the Company's current directors and former officers, (ii) alleged violations of Section 20(a) of the Exchange Act by certain of the Company's current directors and former officers, and (iii) alleged violations of Sections 20(a) and 20(A) of the Exchange Act by a shareholder. The consolidated amended complaint also asserted claims on behalf the subclass for (i) alleged violations of Section 11 of the Securities Act by the Company, certain of the Company's current directors and former officers, and certain financial firms that acted as underwriters of the Company's public stock offerings, (ii) alleged violations of Section 12 of the Securities Act by the Company, certain of the Company's current directors and former officers, a shareholder of the Company, and certain financial firms that acted as underwriters of the Company's public stock offerings, (iii) alleged violations of Section 15 of the Securities Act by the Company, certain of the Company's former officers, and a shareholder of the Company.

On December 10, 2015, the Company and certain of its current and former officers and directors entered into a Memorandum of Understanding with the plaintiffs' representatives to memorialize an agreement in principle to settle the consolidated securities class action lawsuit, Thomas, et al. v. MagnaChip Semiconductor Corp. et al., Civil Action No. 3:14-CV-01160-JST, pending in the United States District Court for the Northern District of California (the "Class Action Litigation"). On February 5, 2016, the plaintiffs in the consolidated securities class action filed a motion for preliminary approval of the settlement, as well as the stipulation and agreement of settlement and related exhibits. The stipulation and agreement of settlement provided that all claims asserted against all defendants in the Class Action Litigation except for Avenue Capital Management II, L.P. would be released. The stipulation and agreement of settlement also provided for an aggregate settlement payment by the Company of \$23.5 million, which would include all attorneys' fees, costs of administration and plaintiffs' out-of-pocket expenses, lead plaintiff compensatory awards and disbursements. The settlement also included the dismissal of all claims against the Company and the named individuals in the Class Action Litigation without any liability or wrongdoing attributed to them.

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On April 13, 2016, the plaintiffs filed a renewed motion for preliminary approval of the settlement. On July 18, 2016, the court granted plaintiffs' renewed motion for preliminary approval of the settlement. On October 17, 2016, plaintiffs filed their motions for final approval of the settlement and plan of allocation of the settlement and for an award of attorneys' fees, reimbursement of litigation expenses, and reimbursement of the costs and expenses of Lead Plaintiff Keith Thomas. On December 1, 2016, following a hearing on November 21, 2016 and an order dated November 21, 2016, the court entered a supplemental order and final judgment (the "Judgment") granting final approval of the settlement. The Judgment was not appealed within the applicable appeals period (on or before January 3, 2017). The settlement therefore became effective after the expiration of the appeals period. The settlement was fully funded by insurance proceeds.

SEC Enforcement Staff Review

In addition, in March 2014, the Company voluntarily reported to the SEC that the Company's 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 and in the first two quarters of 2015, the Company voluntarily produced documents to the SEC regarding the various accounting issues identified during the independent investigation, and whether the Company's hiring of an accountant from the Company's independent registered public accounting firm impacted that accounting firm's independence. On July 22, 2014, the Staff of the SEC's Division of Enforcement obtained a Formal Order of Investigation. On March 12, 2015, the SEC issued a subpoena for documents to the Company in connection with this investigation. The Company will continue to cooperate with the SEC in this investigation, and has produced documents in response to the subpoena. At this time, the Company is unable to estimate any reasonably possible loss, or range of reasonably possible losses, with respect to the matters described above. This is primarily because these matters involve complex legal and factual issues subject to uncertainty. There can be no assurance that these matters will be resolved in a manner that is not adverse to the Company.

Shareholder Derivative Complaints

A shareholder derivative action, styled *Hemmingson et al. v. Elkins et al.*, Case No. 1-15-cv-278614, was filed in the Superior Court of the State of California in and for Santa Clara County on March 25, 2015, naming as defendants certain of the Company's current directors and former and now-former officers, as well as a shareholder of the Company, and naming the Company as a nominal defendant. The complaint in this action asserted claims for (i) alleged breaches of fiduciary duty by certain of the Company's current directors and former and now-former officers for purportedly knowingly failing to maintain adequate internal controls over its accounting and reporting functions and disseminating to shareholders certain alleged materially false and misleading statements, (ii) alleged breaches of fiduciary duty by certain of the Company's current directors and a current shareholder of the Company for purported insider trading, and (iii) alleged unjust enrichment by a shareholder of the Company for purported insider trading.

On June 1, 2015, a shareholder derivative action was filed in the Superior Court of the State of California, Santa Clara County styled *Bushansky v. Norby, et al.*, No. 1-15-CV-281284 (PHK) (Cal. Super. Ct. Santa Clara Cnty.). The complaint names as defendants certain of the Company's current directors and former officers, and a shareholder of the Company, with the Company being named as a nominal defendant. The complaint asserted claims for (i) alleged breaches of fiduciary duties by certain of the Company's current directors and former officers for knowingly failing to maintain adequate internal controls over the Company's accounting and reporting functions and disseminating to shareholders certain alleged materially false and misleading statements; and (ii) alleged aiding and abetting of such breaches of fiduciary duties by all defendants.

On January 22, 2016, the Company and the plaintiffs in the *Hemmingson* and *Bushansky* actions entered into and filed a stipulation of settlement with the Superior Court of the State of California, Santa Clara County. The settlement provided for the resolution of all of the pending claims in both shareholder derivative actions against

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the Company and the individual defendants, without any liability or wrongdoing attributed to them. The settlement also provided for an aggregate payment from the Company defendants' directors and officers insurance policies of \$3 million to be made to an escrow account, which would be remitted to the Company once the settlement becomes final, less (i) any applicable costs of such escrow account, (ii) any amount awarded by the court to the plaintiff's counsel for attorney's fees and litigation expenses and (iii) the cost of providing notice of the settlement to the Company's stockholders. The proposed settlement also required that the Company implement certain corporate governance measures.

On February 22, 2016, the plaintiffs filed an unopposed motion for preliminary approval of the proposed derivative settlement. On June 10, 2016, the court granted plaintiffs' motion for preliminary approval of the proposed settlement. On October 18, 2016, after a hearing held on October 14, 2016, the court entered its order and final judgment (the "Judgment") granting final approval of the proposed settlement and awarding plaintiffs' counsel \$750,000 for attorneys' fees and litigation expenses. The Judgment was not appealed within the applicable appeals period (on or before December 19, 2016). The settlement therefore became effective after the expiration of the appeals period. As of December 29, 2016, \$2,250,000 plus applicable interest was paid to the Company in connection with the settlement.

Other Legal Proceedings

We are involved in a variety of legal matters, most of which we consider routine matters that arise in the normal course of business. These routine matters typically fall into broad categories such as those involving customers, employment and labor and intellectual property. Intellectual property litigation and infringement claims, in particular, could cause us to incur significant expenses or prevent us from selling our products. We are currently not involved in any ordinary-course legal proceedings that we believe would have a material adverse effect on our business, financial condition or results of operations.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

Market Information

Our common stock is listed on the New York Stock Exchange under the symbol “MX.” On February 17, 2017, the last reported sales price of our common stock on the NYSE was \$7.70 per share. The table below sets forth the reported high and low sales prices for our common stock during the quarterly periods for the two most recent fiscal years described below.

Price Range of Common Stock

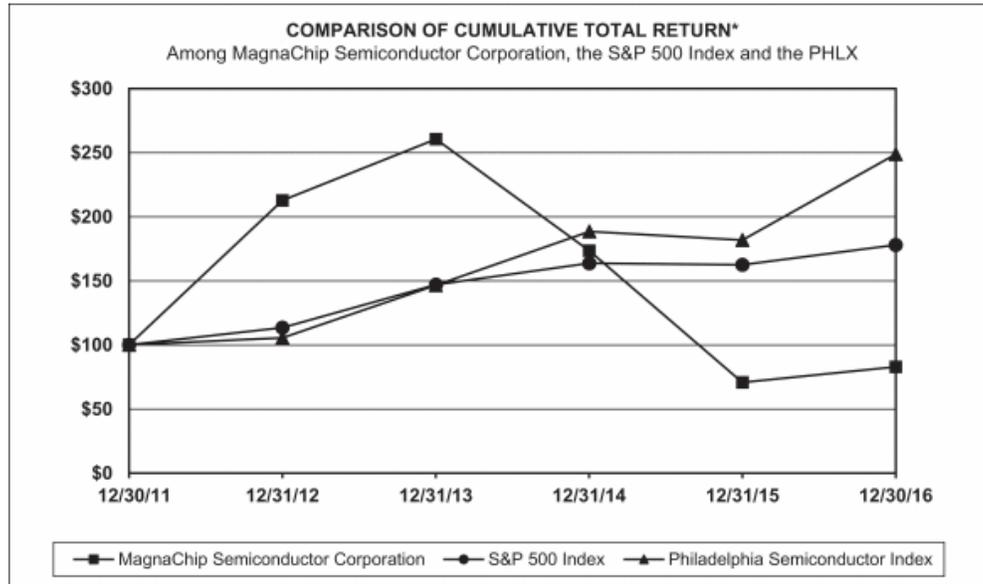
	<u>High</u>	<u>Low</u>
Fiscal 2015		
First Quarter	\$ 15.72	\$ 4.89
Second Quarter	\$ 8.04	\$ 5.00
Third Quarter	\$ 9.88	\$ 6.40
Fourth Quarter	\$ 7.48	\$ 4.14
Fiscal 2016		
First Quarter	\$ 5.81	\$ 3.10
Second Quarter	\$ 6.10	\$ 4.71
Third Quarter	\$ 9.17	\$ 5.35
Fourth Quarter	\$ 8.83	\$ 5.20

Stock Performance Graph

The graph and table below compare the cumulative total stockholder return of our common shares with the cumulative total return of the S&P 500 Index and the Philadelphia Semiconductor Index (PHLX) from December 30, 2011 (the last trading day before the beginning of our fifth preceding fiscal year) through December 31, 2016. The graph assumes that \$100 was invested on December 30, 2011 in our common shares and in each index and that any dividends were reinvested. No cash dividends have been declared on our common shares during the five-year period ended December 31, 2016.

Comparison of Cumulative Total Return*

Among MagnaChip Semiconductor Corporation, the S&P 500 Index and the PHLX



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

Total Return to Stockholders (Including Reinvestment of Dividends)

Indexed Returns

Company/Index	Base Period					
	12/30/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/30/2016
MagnaChip Semiconductor Corporation	100	212.83	260.70	173.66	70.72	82.89
S&P 500 Index	100	113.41	146.98	163.72	162.53	178.02
Philadelphia Semiconductor Index	100	105.38	146.81	188.47	182.05	248.73

Holders

The approximate number of record holders of our outstanding common stock as of January 31, 2017 was 71. This number does not include beneficial owners for whom shares are held by nominees in street name.

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Dividends

We do not intend to pay any cash dividends on our common stock in the foreseeable future. We anticipate that we will retain all of our future earnings for use in the development of our business and for general corporate purposes. Any determination to pay dividends in the future will be at the discretion of our Board of Directors. The payment of cash dividends on our common stock is restricted under the terms of the indentures governing our Exchangeable Notes and 2021 Notes.

Issuer Purchases of Equity Securities

The Company did not repurchase any shares of its outstanding common stock during the fiscal quarter ended December 31, 2016.

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Item 6. Selected Financial Data

The following tables set forth selected historical consolidated financial data of MagnaChip Semiconductor Corporation on or as of the dates and for the periods indicated. The selected historical consolidated financial data presented below should be read together with “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements contained in “Item 8. Financial Statements and Supplementary Data,” including the notes to those consolidated financial statements, appearing elsewhere in this Report.

We have derived the selected consolidated financial data as of December 31, 2016 and 2015 and for the years ended December 31, 2016, 2015 and 2014 from the historical audited consolidated financial statements of the Company included in this Report. We have derived the selected consolidated financial data as of December 31, 2014, 2013 and 2012 and for the years ended December 31, 2013 and 2012 from the audited consolidated financial statements of MagnaChip Semiconductor Corporation not included in this Report. The historical financial data of MagnaChip Semiconductor Corporation for any period are not necessarily indicative of the results to be expected in any future period.

	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012
(In millions, except per share data)					
Statements of Operations Data:					
Net sales	\$ 688.0	\$ 633.7	\$ 698.2	\$ 734.2	\$ 807.3
Cost of sales	<u>531.7</u>	<u>498.8</u>	<u>545.4</u>	<u>579.1</u>	<u>564.1</u>
Gross profit	156.2	134.9	152.9	155.1	243.2
Selling, general and administrative expenses	89.1	94.4	127.0	85.8	82.7
Research and development expenses	72.2	83.4	92.8	87.9	76.3
Restructuring and impairment charges (gain)	<u>(7.8)</u>	<u>—</u>	<u>10.3</u>	<u>8.2</u>	<u>—</u>
Operating income (loss) from continuing operations	2.7	(42.9)	(77.1)	(26.8)	84.3
Interest expense	(16.2)	(16.3)	(16.8)	(21.1)	(23.2)
Foreign currency gain (loss), net	(15.4)	(42.5)	(24.7)	16.8	57.3
Loss on early extinguishment of senior notes	—	—	—	(32.8)	—
Others, net	<u>3.0</u>	<u>1.8</u>	<u>2.9</u>	<u>3.6</u>	<u>4.5</u>
	<u>(28.6)</u>	<u>(57.0)</u>	<u>(38.6)</u>	<u>(33.5)</u>	<u>38.6</u>
Income (loss) from operations before income taxes	(25.9)	(100.0)	(115.7)	(60.2)	122.9
Income tax expenses (benefits)	<u>3.7</u>	<u>(15.1)</u>	<u>1.5</u>	<u>4.0</u>	<u>12.8</u>
Net income (loss)	<u>\$ (29.6)</u>	<u>\$ (84.9)</u>	<u>\$ (117.2)</u>	<u>\$ (64.2)</u>	<u>\$ 110.0</u>
Net income (loss) attributable to common share	<u>\$ (29.6)</u>	<u>\$ (84.9)</u>	<u>\$ (117.2)</u>	<u>\$ (64.2)</u>	<u>\$ 110.0</u>

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	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2014	Year Ended December 31, 2013	Year Ended December 31, 2012
(In millions, except per share data)					
Per share data:					
Earnings (loss) per share—					
Basic	\$ (0.85)	\$ (2.47)	\$ (3.44)	\$ (1.82)	\$ 3.01
Diluted	\$ (0.85)	\$ (2.47)	\$ (3.44)	\$ (1.82)	\$ 2.93
Weighted average number of shares					
Basic	34.834	34.381	34.056	35.232	36.568
Diluted	34.834	34.381	34.056	35.232	37.533
Balance Sheet Data (at period end):					
Cash and cash equivalents	\$ 83.4	\$ 90.9	\$ 102.4	\$ 153.6	\$ 182.2
Total assets(4)	442.0	474.1	523.4	620.4	675.0
Total indebtedness(1)(4)	221.1	220.4	219.7	219.2	195.9
Stockholders' equity (deficit)	(72.1)	(62.3)	(18.5)	81.5	191.5
Supplemental Data:					
Adjusted EBITDA(2)	\$ 40.7	\$ 0.8	\$ 8.5		
Adjusted Net Loss(3)	\$ (4.5)	\$ (26.7)	\$ (38.1)		

- (1) Total indebtedness represents long-term borrowings.
- (2) We define Adjusted EBITDA for the periods indicated as EBITDA (as defined below), adjusted to exclude (i) restructuring and impairment charges, (ii) equity-based compensation expense, (iii) foreign currency loss (gain), net, (iv) derivative valuation loss, net and (v) restatement related expenses. EBITDA for the periods indicated is defined as net income (loss) before interest expense, net, income tax expenses and depreciation and amortization. This is a non-US GAAP financial measure and is discussed under "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Explanation and Reconciliation of Non-US GAAP measures—Adjusted EBITDA and Adjusted Net Loss."
- (3) We define Adjusted Net Loss for the periods indicated as net income (loss), adjusted to exclude (i) restructuring and impairment charges, (ii) equity-based compensation expense, (iii) amortization of intangibles, (iv) foreign currency loss (gain), net, (v) derivative valuation loss, net, and (vi) restatement related expenses. This is a non-US GAAP financial measure and is discussed under "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Explanation and Reconciliation of Non-US GAAP measures—Adjusted EBITDA and Adjusted Net Loss."
- (4) In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2015-03, "Interest—Imputation of Interest", which requires that debt issuance costs are presented in the balance sheet as a direct deduction from the carrying amount of debt liability, consistent with debt discounts or premiums. We adopted ASU 2015-03 in 2016 and reclassified all prior periods presented in the table above to conform to the current period presentation. As of December 31, 2015, December 31, 2014, December 31, 2013 and December 31, 2012, \$3.8 million, \$4.3 million, \$4.8 million and \$5.8 million of debt issuance costs were reclassified from total assets to a reduction of total indebtedness. The adoption of ASU 2015-03 did not impact our consolidated statements of operations.

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

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

Overview

We are a Korea-based designer and manufacturer of analog and mixed-signal semiconductor products for consumer, computing, communication, industrial, automotive and IoT applications. We provide technology platforms for analog, mixed-signal, power, high voltage, non-volatile memory, and RF applications. We have a proven record with a 30-year operating history, large portfolio of 2,198 registered novel patents and 166 pending novel patent applications and extensive engineering and manufacturing process expertise.

We had previously reported our results of operations under one operating segment. During the second quarter of 2015, organizational changes were made to (i) realign our businesses and organizational structure and (ii) streamline and consolidate certain business processes to achieve greater operating efficiencies. In furtherance of these objectives, we combined our Display Solutions and Power Solutions business lines into a new segment called Standard Products Group. Beginning in the second quarter of 2015, we report our financial results in two operating segments: Semiconductor Manufacturing Services and Standard Products Group. All prior period amounts related to the segment change have been retrospectively reclassified to conform to the new presentation.

Beginning in the third quarter of 2015, we changed the name of our Semiconductor Manufacturing Services segment to Foundry Services Group. We believe that this new name provides greater clarity on the identity of this segment. There is no change to the composition of this reportable segment from what we previously reported for the Semiconductor Manufacturing Services segment.

Our Foundry Services Group provides specialty analog and mixed-signal foundry services mainly for fabless and IDM semiconductor companies that primarily serve consumer, computing, communication, industrial, automotive and IoT applications. Our Standard Products Group includes our Display Solutions and Power Solutions business lines. Our Display Solutions products provide flat panel display solutions to major suppliers of large and small flat panel displays and include our sensor products for mobile applications, industrial applications and home appliances. Our Power Solutions products include discrete and integrated circuit solutions for power management in consumer, computing, communication and industrial applications.

Our wide variety of analog and mixed-signal semiconductor products and manufacturing services combined with our mature 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 electronics device supply chain. We believe this enables us to quickly and efficiently respond to our customers' needs and allows us to better serve and capture additional demand from existing and new customers.

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

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

Demand for our products and services is driven by overall demand for consumer, computing, communication, industrial, automotive and IoT products and can be adversely affected by periods of weak consumer and enterprise spending or by market share losses by our customers. In order to mitigate the impact of market volatility on our business, we are diversifying our portfolio of products, customers, and target applications. We also expect that new competitors will emerge in these markets that may place increased pressure on the pricing for our products and services. While we believe we are well positioned competitively to compete in these markets and against these new competitors as a result of our long operating history, existing manufacturing capacity and our Korea-based operations, if we are not effective in competing in these markets our operating results may be adversely affected.

Within our Foundry Services Group, net sales are driven by customers' decisions on which manufacturing services provider to use for a particular product. Most of our Foundry Services Group customers are fabless, while some are IDM customers. A customer will often have more than one supplier of manufacturing services. In any given period, our net sales depend heavily upon the end-market demand for the goods in which the products we manufacture for customers are used, the inventory levels maintained by our customers and in some cases, allocation of demand for manufacturing services among selected qualified suppliers.

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

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

Our products and services require investments in capital equipment. Analog and mixed-signal manufacturing facilities and processes are typically distinguished by the design and process implementation expertise rather than the use of the most advanced equipment. Many of 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 do not require substantial investment in leading edge process equipment for those products, allowing us to utilize our facilities and equipment over an extended period of time with moderate required capital investments. In addition, we are less likely to experience significant industry overcapacity, which can cause product prices to decline significantly. In general, we seek to invest in manufacturing capacity that can be used for multiple high-value applications over an

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extended period of time. In addition, we outsource manufacturing of those products which do require advanced technology and 12-inch wafer capacity. We believe this capital investment strategy enables us to optimize our capital investments and facilitates more diversified product and service offerings.

Since 2007, we have designed and manufactured active matrix organic light emitting diodes (AMOLED) display driver ICs in our internal manufacturing facilities. Recently, as we expanded our design capabilities to products that require lower geometries unavailable at our existing manufacturing facilities, we began outsourcing manufacturing of certain AMOLED display driver ICs to an external foundry. This additional source of manufacturing is an increasingly important part of our supply chain management, accounting for a growing portion of our revenue. By outsourcing manufacturing of advanced AMOLED products to external foundries, we are able to dynamically adapt to the changing customer requirements and address growing markets without substantial capital investments by us. Both at the internal and external foundries, we apply our unique AMOLED process patents as well as other intellectual property, proprietary process design kits and custom design-flow methodologies.

Our success going forward will depend upon our ability to adapt to future challenges such as the emergence of new competitors for our products and services or the consolidation of current competitors. Additionally, we must innovate to remain ahead of, or at least rapidly adapt to, technological breakthroughs that may lead to a significant change in the technology necessary to deliver our products and services. We believe that our established relationships and close collaboration with leading customers enhance our awareness of new product opportunities, market and technology trends and improve our ability to adapt and grow successfully. In our Foundry Services Group, we strive to maintain competitiveness by offering high-value added processes, high-flexibility and excellent service by tailoring existing standard processes to meet customers' design needs and porting customers' own process technologies into our fabrication facilities.

Recent Developments

In December 2014, we announced that our Board of Directors had adopted a plan to close our 6-inch fab. During the fourth quarter of 2015, we received an \$8.2 million deposit for sale of machinery in conjunction with the planned closure of our 6-inch fab. According to this plan, the 6-inch fab was closed on February 29, 2016. During the first quarter of 2016, we completed all procedures necessary to sell all machineries in our closed 6-inch fab and recognized a \$7.8 million restructuring gain from this related deposit of \$8.2 million, net of certain direct selling costs. On April 4, 2016, we commenced the Program, which was available to certain manufacturing employees, including our 6-inch fab employees, through April 29, 2016.

As of April 29, 2016, 169 employees elected to resign under the terms of the Program, from which we expect to save approximately \$8 million in spending per year. We paid approximately \$8 million for severance benefits, which are required by law and had already been fully accrued in our financial statements, in a lump sum during the second quarter of 2016. Beginning in May 2016, we also began to pay a portion of the \$4.2 million in aggregate other termination benefits under the Program, which are being paid in equal monthly installments over twelve months. We recorded the \$4.2 million charge related to the full amount of these other termination benefits payable under the Program during the second quarter of 2016.

As of December 21, 2016, we entered into a purchase and sale agreement to sell a building located in Cheongju, South Korea. The building has historically been used to house the 6-inch fab and became vacant upon the closure of the fabrication facility. As of December 31, 2015, the building was fully impaired. We received proceeds of \$18.2 million, including a \$1.7 million value-added tax, for the sale of the building on December 26, 2016. We are obligated to perform certain removal construction work that is expected to be completed by the end of March 2017. Accordingly, we recorded \$18.2 million as restricted cash in our consolidated balance sheets as of December 31, 2016.

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Restatement

In January 2014, our Audit Committee commenced an independent investigation that resulted in the restatement of certain financial statements for prior periods. As a result of the restatement, we have incurred substantial external accounting, legal and other related costs associated with the restatement and certain litigation and other regulatory investigations and actions related thereto. We incurred restatement related costs of \$7.0 million, primarily attributable to certain litigation, for the year ended December 31, 2016, compared to \$12.4 million and \$40.9 million for the years ended December 31, 2015 and 2014, respectively.

On December 10, 2015, we entered into a Memorandum of Understanding with the plaintiffs' representatives to settle the Class Action Litigation, as defined and detailed in "Item 3. Legal Proceedings" in this Report, for an aggregate settlement payment of \$23.5 million. This settlement payment was fully funded by insurance proceeds that were received in the first quarter of 2016 and disbursed from the escrow account, previously recorded as restricted cash, in the third quarter of 2016.

On January 22, 2016, we entered into a stipulation of settlement with the plaintiffs in the shareholder derivative actions, as described in "Item 3. Legal Proceedings" in this Report, for an aggregate payment of \$3.0 million from our insurance proceeds that were received in the first quarter of 2016 and recorded in the escrow account. In October 2016, the court approved the settlement of the shareholder derivative actions for \$3.0 million, which included \$0.75 million awarded to plaintiffs' counsel. Upon the expiration of the appeals period, \$2.25 million was disbursed from the escrow account, previously recorded as restricted cash, in December 2016. The remaining restricted cash related to insurance proceeds of \$3.1 million was also released in December 2016.

Segments

We report our financial results in two operating segments: Foundry Services Group and Standard Products Group. We identified these segments based on how we allocate resources and assess our performance.

- **Foundry Services Group:** Our Foundry Services Group provides specialty analog and mixed-signal foundry services to fabless semiconductor companies and IDMs that serve consumer, computing, communication, industrial, automotive and IoT applications. We manufacture wafers based on our customers' product designs. We do not market these products directly to end customers but rather supply manufactured wafers and products to our customers to market to their end customers. We offer approximately 466 process flows to our foundry services customers. We also often partner with key customers to jointly develop or customize specialized processes that enable our customers to improve their products and allow us to develop unique manufacturing expertise. Our foundry services target customers who require differentiated, specialty analog and mixed-signal process technologies such as high voltage complementary metal-oxide-semiconductor (CMOS), non-volatile memory or bipolar-CMOS-DMOS (BCD). These customers typically serve the consumer, computing, communication, industrial, automotive and IoT applications. Our Foundry Services Group business represented 39.8%, 45.9% and 51.6% of our net sales for the fiscal years ended December 31, 2016, 2015 and 2014, respectively. Gross profit from our Foundry Services Group business was \$69.4 million, \$66.2 million and \$75.7 million for the fiscal years ended December 31, 2016, 2015 and 2014, respectively.
- **Standard Products Group:** Our Standard Products Group includes our Display Solutions and Power Solutions business lines. Our Display Solutions products include source and gate drivers and timing controllers that cover a wide range of flat panel displays used in ultra high definition (UHD), high definition (HD), light emitting diode (LED), 3D and OLED televisions and displays, notebooks and mobile communications and entertainment devices. Our Display Solutions 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 (TFT). Since 2007, we have designed and manufactured AMOLED display driver IC products. Our current portfolio of AMOLED solutions address a wide range of resolutions ranging from HD to Wide Quad High

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Definition (WQHD) for applications including smartphones, TVs, and other mobile devices. We believe we have a unique intellectual property portfolio and mixed-signal design and manufacturing expertise in the AMOLED industry. We provide a full range of intelligent sensor product families featuring 0.18 micron analog and mixed-signal technology with low power consumption. Our sensor families target the growing market for applications ranging from smartphone, tablet PC and other consumer electronics to industrial devices. Our Power Solutions business line produces power management semiconductor products including discrete and integrated circuit solutions for power management in high-volume consumer applications. These products include metal oxide semiconductor field effect transistors (MOSFETs), insulated-gate bipolar transistors (IGBTs), power modules, AC-DC converters, DC-DC converters, LED drivers, switching regulators and linear regulators for a range of devices, including televisions, smartphones, mobile phones, desktop PCs, notebooks, tablet PCs, other consumer electronics, and industrial applications such as power suppliers, LED lighting, motor control and home appliances. Our Standard Products Group, which includes our Display Solutions and Power Solutions business lines, represented 60.1%, 54.0% and 48.3% of our net sales for the fiscal years ended December 31, 2016, 2015 and 2014, respectively. Gross profit from our Standard Products Group was \$87.2 million, \$68.1 million and \$76.6 million for the fiscal years ended December 31, 2016, 2015 and 2014, respectively.

Explanation and Reconciliation of Non-US GAAP Measures

Adjusted EBITDA and Adjusted Net Loss

We use the terms Adjusted EBITDA and Adjusted Net Loss throughout this Report. Adjusted EBITDA, as we define it, is a non-US GAAP measure. We define Adjusted EBITDA for the periods indicated as EBITDA (as defined below), adjusted to exclude (i) restructuring, impairment and other (gain), (ii) equity-based compensation expense, (iii) foreign currency loss (gain), net, (iv) derivative valuation loss (gain), net and (v) restatement related expenses. EBITDA for the periods indicated is defined as net loss before interest expense, net, income tax expenses (benefits), and depreciation and amortization.

See the footnotes to the table below for further information regarding these items. We present Adjusted EBITDA as a supplemental measure of our performance because:

- we believe that Adjusted EBITDA, by eliminating the impact of a number of items that we do not consider to be indicative of our core ongoing operating performance, provides a more comparable measure of our operating performance from period-to-period and may be a better indicator of future performance;
- we believe that Adjusted EBITDA is commonly requested and used by securities analysts, investors and other interested parties in the evaluation of the Company as an enterprise level performance measure that eliminates the effects of financing, income taxes and the accounting effects of capital spending, as well as other one time or recurring items described above; and
- we believe that Adjusted EBITDA is useful for investors, among other reasons, to assess the Company's period-to-period core operating performance and to understand and assess the manner in which management analyzes operating performance.

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

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

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

	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2014
	(In millions)		
Net Loss	\$ (29.6)	\$ (84.9)	\$ (117.2)
Interest expense, net	16.0	16.0	16.2
Income tax expenses (benefits)	3.7	(15.1)	1.5
Depreciation and amortization	25.4	26.5	30.0
EBITDA	\$ 15.5	\$ (57.4)	\$ (69.4)
Adjustments:			
Restructuring, impairment and other (gain)(a)	(1.3)	—	10.3
Equity-based compensation expense(b)	3.8	2.8	2.1
Foreign currency loss (gain), net(c)	15.4	42.5	24.6
Derivative valuation loss (gain), net(d)	0.3	0.5	—
Restatement related expenses(e)	7.0	12.4	40.9
Adjusted EBITDA	<u>\$ 40.7</u>	<u>\$ 0.8</u>	<u>\$ 8.5</u>

- (a) This adjustment eliminates the impact associated with the closure of our 6-inch fab. For the year ended December 31, 2016, the adjustment eliminates the \$7.8 million restructuring gain on sale of machinery in connection with the closure of our 6-inch fab, net of the \$4.2 million other termination benefits payable under the voluntary resignation program and \$2.3 million training and transition costs related to our 6-inch fab employees. For the year ended December 31, 2014, the adjustment eliminates the impact of impairment charges of \$10.3 million related to the asset impairment in connection with the closure of our 6-inch fab. We believe that the exclusion of these impacts provides investors with a more consistent basis for which to compare results in future periods now that the closure of our 6-inch fab has been completed.
- (b) This adjustment eliminates the impact of non-cash equity-based compensation expenses. Although we expect to incur non-cash equity-based compensation expenses in the future, these expenses do not generally require cash settlement, and, therefore, are not used by us to assess the profitability of our operations. We believe that analysts and investors will find it helpful to review our operating performance without the effects of these non-cash expenses as supplemental information.
- (c) This adjustment mainly eliminates the impact of non-cash foreign currency translation associated with intercompany debt obligations and foreign currency denominated receivables and payables, as well as the cash impact of foreign currency transaction gains or losses on collection of such receivables and payment of such payables. Although we expect to incur foreign currency translation gains or losses in the future, we believe that analysts and investors will find it helpful to review our operating performance without the effects of these primarily non-cash gains or losses, which we cannot control. Additionally, we believe the isolation of this adjustment provides investors with enhanced comparability to prior and future periods of our operating performance results.
- (d) This adjustment eliminates the impact of gain or loss recognized in income on derivatives, which represents hedge ineffectiveness or derivatives value changes excluded from the risk being hedged. We enter into derivative transactions to mitigate foreign exchange risks. As our derivative transactions are limited to a certain portion of our expected cash flows denominated in U.S. dollars, and we do not enter into derivative transactions for trading or speculative purposes, we do not believe that these charges or gains are indicative of our core operating performance.
- (e) This adjustment eliminates expenses in connection with the Audit Committee's independent investigation and related restatement and litigation, primarily comprised of legal, audit and consulting fees. Partially

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offsetting the restatement related expenses for the year ended December 31, 2015 was the proceeds of \$2.4 million from an insurance claim for defense costs. This amount does not include any allocation of internal costs related to the restatement. As these restatement related expenses meaningfully impacted our operating results and are not expected to represent an ongoing operating expense to us, we believe our operating performance results are more usefully compared if these expenses are excluded.

There was no tax impact from the adjustments to net loss to calculate our Adjusted EBITDA for the years ended December 31, 2016, 2015 and 2014 due to net operating loss carry-forwards available to offset taxable income and full allowance for deferred tax assets. We believe that all adjustments to net loss used to calculate Adjusted EBITDA were applied consistently to the periods presented.

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

- Adjusted EBITDA does not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA does not reflect the interest expense, or the cash requirements necessary to service interest or principal payments, on our debt;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often need to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements;
- Adjusted EBITDA does not consider the potentially dilutive impact of issuing equity-based compensation to our management team and employees;
- Adjusted EBITDA does not reflect the costs of holding certain assets and liabilities in foreign currencies; and
- other companies in our industry may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

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

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

- we use Adjusted Net Loss in communications with our Board of Directors concerning our consolidated financial performance without the impact of non-cash expenses and the other items as we discussed below since we believe that it is a more consistent measure of our core operating results from period to period; and
- we believe that reporting Adjusted Net Loss is useful to readers in evaluating our core operating results because it eliminates the effects of non-cash expenses as well as the other items we discuss below, such as foreign currency gains and losses, which are out of our control and can vary significantly from period to period.

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Adjusted Net Loss is not a measure defined in accordance with US GAAP and should not be construed as an alternative to income from continuing operations, cash flows from operating activities or net loss, as determined in accordance with US GAAP. We encourage you to evaluate each adjustment and the reasons we consider them appropriate. Other companies in our industry may calculate Adjusted Net Loss differently than we do, limiting its usefulness as a comparative measure. In addition, in evaluating Adjusted Net Loss, you should be aware that in the future we may incur expenses similar to the adjustments in this presentation. We define Adjusted Net Loss for the periods indicated as net loss, adjusted to exclude (i) restructuring, impairment and other (gain), (ii) equity-based compensation expense, (iii) amortization of intangibles, (iv) foreign currency loss, net, (v) derivative valuation loss, net and (vi) restatement related expenses.

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

	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2014
	(In millions)		
Net Loss	\$ (29.6)	\$ (84.9)	\$ (117.2)
Adjustments:			
Restructuring, impairment and other (gain)(a)	(1.3)	—	10.3
Equity-based compensation expense(b)	3.8	2.8	2.1
Amortization of intangibles(c)	—	—	1.2
Foreign currency loss, net(d)	15.4	42.5	24.6
Derivative valuation loss, net(e)	0.3	0.5	—
Restatement related expenses(f)	7.0	12.4	40.9
Adjusted Net Loss	<u>\$ (4.5)</u>	<u>\$ (26.7)</u>	<u>\$ (38.1)</u>

- (a) This adjustment eliminates the impact associated with the closure of our 6-inch fab. For the year ended December 31, 2016, the adjustment eliminates the \$7.8 million restructuring gain on sale of machinery in connection with the closure of our 6-inch fab, net of the \$4.2 million other termination benefits payable under the voluntary resignation program and \$2.3 million training and transition costs related to our 6-inch fab employees. For the year ended December 31, 2014, the adjustment eliminates the impact of impairment charges of \$10.3 million related to the asset impairment in connection with the closure of our 6-inch fab. We believe that the exclusion of these impacts provides investors with a more consistent basis for which to compare results in future periods now that the closure of our 6-inch fab has been completed.
- (b) This adjustment eliminates the impact of non-cash equity-based compensation expenses. Although we expect to incur non-cash equity-based compensation expenses in the future, these expenses do not generally require cash settlement, and, therefore, are not used by us to assess the profitability of our operations. We believe that analysts and investors will find it helpful to review our operating performance without the effects of these non-cash expenses as supplemental information.
- (c) This adjustment eliminates the non-cash impact of amortization expense for intangible assets created as a result of the purchase accounting treatment of the Original Acquisition and other subsequent acquisitions, and from the application of fresh-start accounting in connection with the reorganization proceedings. We do not believe these non-cash amortization expenses for intangibles are indicative of our core ongoing operating performance because the assets would not have been capitalized on our balance sheet but for the application of purchase accounting or fresh-start accounting, as applicable.
- (d) This adjustment mainly eliminates the impact of non-cash foreign currency translation associated with intercompany debt obligations and foreign currency denominated receivables and payables, as well as the cash impact of foreign currency transaction gains or losses on collection of such receivables and payment of such payables. Although we expect to incur foreign currency translation gains or losses in the future, we believe that analysts and investors will find it helpful to review our operating performance without the effects of these primarily non-cash gains or losses, which we cannot control. Additionally, we believe the

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isolation of this adjustment provides investors with enhanced comparability to prior and future periods of our operating performance results.

- (e) This adjustment eliminates the impact of gain or loss recognized in income on derivatives, which represents hedge ineffectiveness or derivatives value changes excluded from the risk being hedged. We enter into derivative transactions to mitigate foreign exchange risks. As our derivative transactions are limited to a certain portion of our expected cash flows denominated in U.S. dollars, and we do not enter into derivative transactions for trading or speculative purposes, we do not believe that these charges or gains are indicative of our core operating performance.
- (f) This adjustment eliminates expenses in connection with the Audit Committee's independent investigation and related restatement and litigation, primarily comprised of legal, audit and consulting fees. Partially offsetting the restatement related expenses for the year ended December 31, 2015 was the proceeds of \$2.4 million from an insurance claim for defense costs. This amount does not include any allocation of internal costs related to the restatement. As these restatement related expenses meaningfully impacted our operating results and are not expected to represent an ongoing operating expense to us, we believe our operating performance results are more usefully compared if these expenses are excluded.

There was no tax impact from the adjustments to net loss to calculate our Adjusted Net Loss for the years ended December 31, 2016, 2015 and 2014 due to net operating loss carry-forwards available to offset taxable income and full allowance for deferred tax assets. We believe that all adjustments to net loss used to calculate Adjusted Net Loss were applied consistently to the periods presented.

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

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

Because of these limitations, Adjusted Net Loss should not be considered as a measure of profitability of our business. We compensate for these limitations by relying primarily on our US GAAP results and using Adjusted Net Loss only supplementally.

Our Adjusted EBITDA and Adjusted Net Loss for the year ended December 31, 2016 were \$40.7 million and \$4.5 million, respectively. Our Adjusted EBITDA and Adjusted Net Loss for the year ended December 31, 2015 were \$0.8 million and \$26.7 million, respectively. Our Adjusted EBITDA and Adjusted Net Loss for the year ended December 31, 2014 were \$8.5 million and \$38.1 million, respectively.

Factors Affecting Our Results of Operations

Net Sales. We derive virtually all of our sales (net of sales returns and allowances) from two segments: Foundry Services Group and Standard Products Group. Our product inventory is primarily located in Korea and is available for drop shipment globally. Outside of Korea, we maintain limited product inventory, and our sales representatives generally relay orders to our factories in Korea for fulfillment. We have strategically located our sales and technical support offices near concentrations of major customers. Our sales offices are located in Korea, the United States, Japan and Greater China. Our network of authorized agents and distributors consists of agents in the United States and Europe and distributors and agents in the Asia Pacific region. Our net sales from All other consist principally of the disposal of waste materials.

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We recognize revenue when risk and reward of ownership pass to the customer either upon shipment, upon product delivery at the customer's location or upon customer acceptance, depending on the terms of the arrangement. For the years ended December 31, 2016 and 2015, we sold products to 357 and 316 customers, respectively, and our net sales to our ten largest customers represented 64% and 64% of our net sales, respectively. We have a combined production capacity of approximately 115,000 semiconductor wafers per month. We believe our large-scale, cost-effective fabrication facilities enable us to rapidly adjust our production levels to meet shifts in demand by our end customers.

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

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

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

Labor Costs. A significant portion of our employees are located in Korea. Under Korean labor laws, most employees and certain executive officers with one or more years of service are entitled to severance benefits upon the termination of their employment based on their length of service and rate of pay. As of December 31, 2016, approximately 98% of our employees were eligible for severance benefits.

Depreciation Expense. We periodically evaluate the carrying values of long-lived assets, including property, plant and equipment and intangible assets, as well as the related depreciation periods. We depreciated our property, plant and equipment using the straight-line method over the estimated useful lives of our assets. Depreciation rates vary from 30-40 years on buildings to 5 to 12 years for certain equipment and assets. Our evaluation of carrying values is based on various analyses including cash flow and profitability projections. If our projections indicate that future undiscounted cash flows are not sufficient to recover the carrying values of the related long-lived assets, the carrying value of the assets is impaired and will be reduced, with the reduction charged to expense so that the carrying value is equal to fair value.

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

General and Administrative Expenses. General and administrative expenses consist of the costs of various corporate operations, including finance, legal, human resources and other administrative functions. These expenses primarily consist of payroll-related expenses, consulting and other professional fees and office facility-related expenses.

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Research and Development. The rapid technological change and product obsolescence that characterize our industry require us to make continuous investments in research and development. Product development time frames vary but, in general, we incur research and development costs one to two years before generating sales from the associated new products. These expenses include personnel costs for members of our engineering workforce, cost of photomasks, silicon wafers and other non-recurring engineering charges related to product design. Additionally, we develop base line process technology through experimentation and through the design and use of characterization wafers that help achieve commercially feasible yields for new products. The majority of research and development expenses are for process development that serves as a common technology platform for all of our product lines.

Interest Expense. Our interest expense was incurred primarily under the 2021 Notes.

Impact of Foreign Currency Exchange Rates on Reported Results of Operations. Historically, a portion of our revenues and greater than the majority of our operating expenses and costs of sales have been denominated in non-U.S. currencies, principally the Korean won, and we expect that this will remain true in the future. Because we report our results of operations in U.S. dollars converted from our non-U.S. revenues and expenses based on monthly average exchange rates, changes in the exchange rate between the Korean won and the U.S. dollar could materially impact our reported results of operations and distort period to period comparisons. In particular, because of the difference in the amount of our consolidated revenues and expenses that are in U.S. dollars relative to Korean won, depreciation in the U.S. dollar relative to the Korean won could result in a material increase in reported costs relative to revenues, and therefore could cause our profit margins and operating income (loss) to appear to decline materially, particularly relative to prior periods. The converse is true if the U.S. dollar were to appreciate relative to the Korean won. Moreover, our foreign currency gain or loss would be affected by changes in the exchange rate between the Korean won and the U.S. dollar as a substantial portion of non-cash translation gain or loss is associated with the intercompany long-term loans to our Korean subsidiary, which is denominated in U.S. dollars. As of December 31, 2016, the outstanding intercompany loan balance including accrued interests between our Korean subsidiary and our Dutch subsidiary was \$598 million. Our Dutch subsidiary uses U.S. dollar as their functional currency. As a result of such foreign currency fluctuations, it could be more difficult to detect underlying trends in our business and results of operations. In addition, to the extent that fluctuations in currency exchange rates cause our results of operations to differ from our expectations or the expectations of our investors, the trading price of our stock could be adversely affected.

From time to time, we may engage in exchange rate hedging activities in an effort to mitigate the impact of exchange rate fluctuations. Our Korean subsidiary enters into foreign currency forward and zero cost collar contracts in order to mitigate a portion of the impact of U.S. dollar-Korean won exchange rate fluctuations on our operating results. Obligations under these foreign currency forward and zero cost collar contracts must be cash collateralized if our exposure exceeds certain specified thresholds. These forward and zero cost collar contracts may be terminated by the counterparty in a number of circumstances, including if our total cash and cash equivalents is less than \$30.0 million at the end of a fiscal quarter unless a waiver is obtained from the counterparty. We cannot assure that any hedging technique we implement will be effective. If our hedging activities are not effective, changes in currency exchange rates may have a more significant impact on our results of operations.

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

Income Taxes. We record our income taxes in each of the tax jurisdictions in which we operate. This process involves using an asset and liability approach whereby deferred tax assets and liabilities are recorded for

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

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

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

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

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Results of Operations

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

	Year Ended December 31, 2016		Year Ended December 31, 2015		Year Ended December 31, 2014	
	Amount	% of net sales	Amount	% of net sales	Amount	% of net sales
(In millions)						
Consolidated statements of operations data:						
Net sales	\$688.0	100.0%	\$ 633.7	100.0%	\$ 698.2	100.0%
Cost of sales	<u>531.7</u>	<u>77.3</u>	<u>498.8</u>	<u>78.7</u>	<u>545.4</u>	<u>78.1</u>
Gross profit	156.2	22.7	134.9	21.3	152.9	21.9
Selling, general and administrative expenses	89.1	13.0	94.4	14.9	127.0	18.2
Research and development expenses	72.2	10.5	83.4	13.2	92.8	13.3
Restructuring and impairment charges (gain)	<u>(7.8)</u>	<u>(1.1)</u>	<u>—</u>	<u>—</u>	<u>10.3</u>	<u>1.5</u>
Operating income (loss)	2.7	0.4	(42.9)	(6.8)	(77.1)	(11.0)
Interest expense	(16.2)	(2.4)	(16.3)	(2.6)	(16.8)	(2.4)
Foreign currency loss, net	(15.4)	(2.2)	(42.5)	(6.7)	(24.7)	(3.5)
Others, net	<u>3.0</u>	<u>0.4</u>	<u>1.8</u>	<u>0.3</u>	<u>2.9</u>	<u>0.4</u>
	<u>(28.6)</u>	<u>(4.2)</u>	<u>(57.0)</u>	<u>(9.0)</u>	<u>(38.6)</u>	<u>(5.5)</u>
Loss before income taxes	(25.9)	(3.8)	(100.0)	(15.8)	(115.7)	(16.6)
Income tax expenses (benefits)	<u>3.7</u>	<u>0.5</u>	<u>(15.1)</u>	<u>(2.4)</u>	<u>1.5</u>	<u>0.2</u>
Net loss	<u>\$ (29.6)</u>	<u>(4.3)%</u>	<u>\$ (84.9)</u>	<u>(13.4)%</u>	<u>\$ (117.2)</u>	<u>(16.8)%</u>
Net Sales:						
Foundry Services Group	\$274.0	39.8%	\$ 290.8	45.9%	\$ 360.5	51.6%
Standard Products Group						
Display Solutions	282.0	41.0	207.5	32.7	199.9	28.6
Power Solutions	<u>131.5</u>	<u>19.1</u>	<u>134.8</u>	<u>21.3</u>	<u>137.2</u>	<u>19.7</u>
Total Standard Products Group	413.4	60.1	342.3	54.0	337.1	48.3
All other	<u>0.6</u>	<u>0.1</u>	<u>0.6</u>	<u>0.1</u>	<u>0.6</u>	<u>0.1</u>
Total net sales	<u>\$688.0</u>	<u>100.0%</u>	<u>\$ 633.7</u>	<u>100.0%</u>	<u>\$ 698.2</u>	<u>100.0%</u>

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Results of Operations—Comparison of Years Ended December 31, 2016 and 2015

The following table sets forth consolidated results of operations for the years ended December 31, 2016 and 2015:

	Year Ended December 31, 2016		Year Ended December 31, 2015		Change Amount
	Amount	% of Net Sales	Amount	% of Net Sales	
	(In millions)				
Net sales	\$688.0	100.0%	\$ 633.7	100.0%	\$ 54.3
Cost of sales	531.7	77.3	498.8	78.7	32.9
Gross profit	156.2	22.7	134.9	21.3	21.4
Selling, general and administrative expenses	89.1	13.0	94.4	14.9	(5.3)
Research and development expenses	72.2	10.5	83.4	13.2	(11.2)
Restructuring gain	(7.8)	(1.1)	—	—	(7.8)
Operating income (loss)	2.7	0.4	(42.9)	(6.8)	45.7
Interest expense	(16.2)	(2.4)	(16.3)	(2.6)	0.0
Foreign currency loss, net	(15.4)	(2.2)	(42.5)	(6.7)	27.2
Others, net	3.0	0.4	1.8	0.3	1.2
	(28.6)	(4.2)	(57.0)	(9.0)	28.4
Loss before income taxes	(25.9)	(3.8)	(100.0)	(15.8)	74.1
Income tax expenses (benefits)	3.7	0.5	(15.1)	(2.4)	18.8
Net loss	\$ (29.6)	(4.3)	\$ (84.9)	(13.4)	\$ 55.3

Results by segment

	Year Ended December 31, 2016		Year Ended December 31, 2015		Change Amount
	Amount	% of Net Sales	Amount	% of Net Sales	
	(In millions)				
Net Sales					
Foundry Services Group	\$274.0	39.8%	\$290.8	45.9%	\$(16.8)
Standard Products Group					
Display Solutions	282.0	41.0	207.5	32.7	74.5
Power Solutions	131.5	19.1	134.8	21.3	(3.3)
Total Standard Products Group	413.4	60.1	342.3	54.0	71.1
All other	0.6	0.1	0.6	0.1	—
Total net sales	\$688.0	100.0%	\$633.7	100.0%	\$ 54.3

	Year Ended December 31, 2016		Year Ended December 31, 2015		Change Amount
	Amount	% of Net Sales	Amount	% of Net Sales	
	(In millions)				
Gross Profit					
Foundry Services Group	\$ 69.4	25.3%	\$ 66.2	22.8%	\$ 3.2
Standard Products Group	87.2	21.1	68.1	19.9	19.1
All other	(0.4)	(66.3)	0.6	92.5	(1.0)
Total gross profit	\$156.2	22.7%	\$134.9	21.3%	\$ 21.4

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Net Sales

Net sales were \$688.0 million for the year ended December 31, 2016, a \$54.3 million, or 8.6%, increase compared to \$633.7 million for the year ended December 31, 2015. This increase was primarily attributable to an increase in revenue related to mobile AMOLED display products from our Standard Products Group, which was offset in part by a net decrease in revenue from our Foundry Services Group as described below.

Foundry Services Group. Net sales from our Foundry Services Group segment were \$274.0 million for the year ended December 31, 2016, a \$16.8 million, or 5.8%, decrease compared to net sales of \$290.8 million for the year ended December 31, 2015. The decrease was primarily attributable to a net decline in sales due to the closure of our 6-inch fab in February 2016 and a decrease caused by reduced levels of demand of our foundry services from certain customers serving the high-end and mid-range smartphone markets. These decreases were partially offset by an increase in sales of certain products from new global power management IC foundry customers and an increase in sales of certain products from fingerprint IC and micro controller unit customers.

Standard Products Group. Net sales from our Standard Products Group segment were \$413.4 million for the year ended December 31, 2016, a \$71.1 million, or 20.8%, increase compared to \$342.3 million for the year ended December 31, 2015. This substantial increase was primarily due to a significant increase in revenue related to our Display Solutions business line, partially offset by decrease in revenue related to our Power Solutions business line as described below.

Net sales from our Display Solutions business line were \$282.0 million for the year ended December 31, 2016, a \$74.5 million, or 35.9%, increase from \$207.5 million for the year ended December 31, 2015. The increase in sales was primarily attributable to higher sales of mobile AMOLED display driver IC; partially offset by revenue decrease in large display products mainly due to reduced demand for source drivers. Net sales from our Power Solutions business line were \$131.5 million for the year ended December 31, 2016, a \$3.3 million, or 2.5%, decrease from \$134.8 million for the year ended December 31, 2015. The decrease in sales was primarily due to the reduction of low contribution margin MOSFET products as part of our product portfolio optimization process.

All Other. All other net sales were \$0.6 million for the year ended December 31, 2016 and December 31, 2015, respectively.

Gross Profit

Total gross profit was \$156.2 million for the year ended December 31, 2016 compared to \$134.9 million for the year ended December 31, 2015, a \$21.4 million, or 15.8%, increase. Gross profit as a percentage of net sales for the year ended December 31, 2016 increased to 22.7% compared to 21.3% for the year ended December 31, 2015. The increase in gross profit as a percentage of net sales was due to both our Foundry Services Group and Standard Products Group segments as described below.

Foundry Services Group. Gross profit from our Foundry Services Group segment was \$69.4 million for the year ended December 31, 2016, a \$3.2 million, or 4.9%, increase compared to \$66.2 million for the year ended December 31, 2015. Gross profit as a percentage of net sales for the year ended December 31, 2016 increased to 25.3% compared to 22.8% for the year ended December 31, 2015. The increase in gross profit as a percentage of net sales was mainly attributable to a better product mix as we ended the production and sale of legacy low margin products that were manufactured in our 6-inch fab, which was closed during the first quarter of 2016. The increase in 8-inch utilization rate throughout 2016 had a positive impact to gross profit as a percentage of net sales; offset by absorbed labor costs from the remaining headcount from our legacy 6-inch fab.

Standard Products Group. Gross profit from our Standard Products Group segment was \$87.2 million for the year ended December 31, 2016, a \$19.1 million, or 28.0%, increase from \$68.1 million for the year ended

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December 31, 2015. Gross profit as a percentage of net sales for the year ended December 31, 2016 increased to 21.1% compared to 19.9% for the year ended December 31, 2015. Gross profit as a percentage of net sales slightly increased due to the increase in our 8-inch utilization rate throughout 2016, offset by absorbed labor costs from the remaining employees from our legacy 6-inch fab closure in February 2016. In addition, we strategically increased the volume of certain lower margin products during 2016 to increase our utilization rate and maximize cash flows.

All Other. All other gross profit for the year ended December 31, 2016 was negative \$0.4 million mainly attributable to the \$0.9 million training and transition costs recorded in the first quarter of 2016 related to our remaining 6-inch fab employees, which was partially offset by revenue from the disposal of waste materials. All other gross profit for the year ended December 31, 2015 was \$0.6 million related to the disposal of waste materials.

Net Sales by Geographic Region

We report net sales by geographic region based on the location to which the products are billed. The following table sets forth our net sales by geographic region and the percentage of total net sales represented by each geographic region for the years ended December 31, 2016 and 2015:

	Year Ended December 31, 2016		Year Ended December 31, 2015		Change Amount
	Amount	% of Net Sales	Amount	% of Net Sales	
	(In millions)				
Korea	\$219.6	31.9%	\$241.7	38.1%	\$(22.1)
Asia Pacific (other than Korea)	391.9	57.0	316.6	50.0	75.3
U.S.A.	33.2	4.8	51.2	8.1	(18.0)
Europe	42.3	6.1	23.5	3.7	18.8
Others	1.0	0.1	0.8	0.1	0.2
	<u>\$688.0</u>	<u>100.0%</u>	<u>\$633.7</u>	<u>100.0%</u>	<u>\$ 54.3</u>

Net sales in Korea for the year ended December 31, 2016 decreased from \$241.7 million to \$219.6 million compared to the year ended December 31, 2015, or by \$22.1 million, or 9.1%, primarily due to reduced demand of large display applications and a decrease in sales in connection with the closure of our 6-inch fab in the first quarter of 2016, which was partially offset by increased sales of certain MOSFET products mainly for battery protection.

Net sales in Asia Pacific for the year ended December 31, 2016 increased from \$316.6 million to \$391.9 million compared to the year ended December 31, 2015, or by \$75.3 million, or 23.8%, primarily due to higher sales of mobile AMOLED display products, which was partially offset by reduced sales of MOSFET products and our foundry services due to the closure of our 6-inch fab in the first quarter of 2016.

Net sales in the United States for the year ended December 31, 2016 decreased from \$51.2 million to \$33.2 million compared to the year ended December 31, 2015, or by \$18.0 million, or 35.1%, primarily due to the change in billing location from the United States to Europe by a foundry customer serving the high-end smartphone market, which was partially offset by an increase in sales of certain products from a new global power management IC foundry customer.

Net sales in Europe for the year ended December 31, 2016 increased from \$23.5 million to \$42.3 million compared to the year ended December 31, 2015, or by \$18.8 million, or 80.2%, primarily due to the change in billing location from the United States to Europe by a foundry customer serving the high-end smartphone market.

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Operating Expenses

Selling, General and Administrative Expenses. Selling, general and administrative expenses were \$89.1 million, or 13.0% of net sales for the year ended December 31, 2016, compared to \$94.4 million, or 14.9% of net sales for the year ended December 31, 2015. The decrease of \$5.3 million, or 5.6%, was attributable to an \$8.8 million decrease in professional fees mainly comprised of legal and consulting fees and a \$2.5 million decrease related to a reversal of a non-income-based tax accrual. These decreases were partially offset by a \$4.2 million increase in other termination benefit expenses under our voluntary resignation program and a \$2.4 million increase due to proceeds from an insurance claim for certain restatement related legal costs received in 2015. The remaining decrease in various general and administrative expenses was primarily a result of our cost reduction efforts.

Research and Development Expenses. Research and development expenses were \$72.2 million, or 10.5% of net sales for the year ended December 31, 2016, compared to \$83.4 million, or 13.2% of net sales for the year ended December 31, 2015. The decrease of \$11.2 million, or 13.5%, was comprised of an \$8.8 million decrease in R&D related material and processing costs, a \$1.2 million decrease in personnel costs, and a \$1.2 million reduction in outside service fees and various overhead expenses.

Restructuring Gain. Restructuring gain of \$7.8 million recorded for the year ended December 31, 2016 resulted from the sale of machinery related to the closure of our 6-inch fab.

Operating Income (Loss)

As a result of the foregoing, operating income increased by \$45.7 million in the year ended December 31, 2016 compared to the year ended December 31, 2015. As discussed above, the increase in operating income resulted from a \$21.4 million increase in gross profit, a \$5.3 million decrease in selling, general and administrative expenses, an \$11.2 million decrease in research and development expenses and a \$7.8 million increase in restructuring gain.

Other Income (Expense)

Interest Expense. Interest expense was \$16.2 million for the year ended December 31, 2016 and \$16.3 million for the year ended December 31, 2015, respectively.

Foreign Currency Loss, Net. Net foreign currency loss for the year ended December 31, 2016 was \$15.4 million compared to net foreign currency loss of \$42.5 million for the year ended December 31, 2015. The net foreign currency loss for the years ended December 31, 2016 and 2015 was due to the depreciation in value of the Korean won relative to the U.S. dollar during the period.

A substantial portion of our net foreign currency gain or loss is non-cash translation gain or loss associated with the intercompany long-term loans to our Korean subsidiary, which is denominated in U.S. dollars, and is affected by changes in the exchange rate between the Korean won and the U.S. dollar. As of December 31, 2016, the outstanding intercompany loan balance including accrued interest between our Korean subsidiary and our Dutch subsidiary was \$598,212 thousand. Foreign currency translation gain or loss from intercompany balances was included in determining our consolidated net income since the intercompany balances were not considered long-term investments in nature because management intended to settle these intercompany balances at their respective maturity dates.

Others, Net. Others were comprised of gains and losses on the valuation of derivatives which were designated as hedging instruments, rental income and interest income. Others for the year ended December 31, 2016 and December 31, 2015 were \$3.0 million and \$1.8 million, respectively.

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Income Tax Expenses (Benefits)

We are subject to income taxes in the United States and many foreign jurisdictions and our effective tax rate is affected by changes in the mix of earnings between countries with differing tax rates. Our primary foreign operations are in Korea where the statutory tax rate applicable to us was approximately 24.2% in 2016 and 2015. Statutory tax rates for all foreign subsidiaries were less than the U.S. federal statutory rate of 35.0%.

We recorded income tax expenses of \$3.7 million for the year ended December 31, 2016 and income tax benefits of \$15.1 million for the year ended December 31, 2015. The effective tax rate was negative for the year ended December 31, 2016, as compared to 15.1% for the year ended December 31, 2015.

The significant increase in income tax expenses in 2016 is related to the reversal of withholding tax payable with respect to the waiver of the accrued interest on the loans granted to our Korean subsidiary by our Dutch subsidiary in 2015. Korean and Dutch subsidiaries agreed that our Dutch subsidiary waives and releases a partial amount of unpaid interest of \$174 million on its intercompany loans granted to our Korean subsidiary in order to decrease the cumulative losses of our Korean subsidiary to enhance the subsidiary's credit standing under the local banking rules. This transaction created a taxable income for our Korean subsidiary but did not result in a liability because of the utilization of expired loss carryforwards, which is deductible only against gains from cancellation of debt. The loss was not tax deductible for our Dutch subsidiary. This transaction also resulted in taxable loss for our Luxemburg subsidiary and this tax benefit was offset by an increase in the change in valuation allowance. In connection with the waiver of unpaid interest, the related withholding tax was reversed, resulting in the recognition of income tax benefit of \$17.8 million as of December 31, 2015.

We make an ongoing assessment regarding the realization of U.S. and non-U.S. deferred tax assets. The valuation allowances at December 31, 2016 and 2015 are primarily attributable to deferred tax assets for the uncertainty in taxable income at our Korean subsidiary for which we have recorded a full valuation allowance against the deferred tax assets, net of its deferred tax liabilities, and against certain of our foreign subsidiaries' deferred tax assets pertaining to their related tax loss carry-forwards and tax credits that are not anticipated to generate a tax benefit.

Net Loss

As a result of the foregoing, net loss decreased by \$55.3 million in the year ended December 31, 2016 compared to the year ended December 31, 2015. As discussed above, the decrease primarily resulted from a \$45.7 million decrease in operating loss and a \$27.2 million decrease in foreign currency loss, partially offset by an \$18.8 million increase in income tax expenses.

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Results of Operations—Comparison of Years Ended December 31, 2015 and 2014

The following table sets forth consolidated results of operations for the years ended December 31, 2015 and 2014:

	Year Ended December 31, 2015		Year Ended December 31, 2014		Change Amount
	Amount	% of Net Sales	Amount	% of Net Sales	
	(In millions)				
Net sales	\$ 633.7	100.0%	\$ 698.2	100.0%	\$(64.5)
Cost of sales	498.8	78.7	545.4	78.1	(46.5)
Gross profit	134.9	21.3	152.9	21.9	(18.0)
Selling, general and administrative expenses	94.4	14.9	127.0	18.2	(32.6)
Research and development expenses	83.4	13.2	92.8	13.3	(9.3)
Restructuring and impairment charges	—	—	10.3	1.5	(10.3)
Operating loss	(42.9)	(6.8)	(77.1)	(11.0)	34.2
Interest expense	(16.3)	(2.6)	(16.8)	(2.4)	0.6
Foreign currency loss, net	(42.5)	(6.7)	(24.7)	(3.5)	(17.9)
Others, net	1.8	0.3	2.9	0.4	(1.1)
	(57.0)	(9.0)	(38.6)	(5.5)	(18.4)
Loss before income taxes	(100.0)	(15.8)	(115.7)	(16.6)	15.7
Income tax expenses (benefits)	(15.1)	(2.4)	1.5	0.2	(16.6)
Net loss	\$ (84.9)	(13.4)	\$(117.2)	(16.8)	\$ 32.3

Results by segment

	Year Ended December 31, 2015		Year Ended December 31, 2014		Change Amount
	Amount	% of Net Sales	Amount	% of Net Sales	
	(In millions)				
Net Sales					
Foundry Services Group	\$290.8	45.9%	\$360.5	51.6%	\$(69.8)
Standard Products Group					
Display Solutions	207.5	32.7	199.9	28.6	7.6
Power Solutions	134.8	21.3	137.2	19.7	(2.4)
Total Standard Products Group	342.3	54.0	337.1	48.3	5.2
All other	0.6	0.1	0.6	0.1	0.1
Total net sales	\$633.7	100.0%	\$698.2	100.0%	\$(64.5)

	Year Ended December 31, 2015		Year Ended December 31, 2014		Change Amount
	Amount	% of Net Sales	Amount	% of Net Sales	
	(In millions)				
Gross Profit					
Foundry Services Group	\$ 66.2	22.8%	\$ 75.7	21.0%	\$(9.5)
Standard Products Group	68.1	19.9	76.6	22.7	(8.5)
All other	0.6	91.7	0.6	96.1	—
Total gross profit	\$134.9	21.3%	\$152.9	21.9%	\$(18.0)

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Net sales were \$633.7 million for the year ended December 31, 2015, a \$64.5 million, or 9.2%, decrease compared to \$698.2 million for the year ended December 31, 2014. Net sales declined in 2015 compared to fiscal year 2014 primarily as a result of significant decrease in revenue related to our Foundry Services Group segment as described below.

Foundry Services Group. Net sales from our Foundry Services Group segment were \$290.8 million for the year ended December 31, 2015, a \$69.8 million, or 19.4%, decrease compared to \$360.5 million for the year ended December 31, 2014. The decrease was primarily attributable to reduced levels of demand of our foundry services and discontinuation of certain products by customers serving the smartphone market.

Standard Products Group. Net sales from our Standard Products Group segment were \$342.3 million for the year ended December 31, 2015, a \$5.2 million, or 1.5%, increase compared to \$337.1 million for the year ended December 31, 2014. This increase was due to increase in revenue related to our Display Solutions business line, which was partially offset by the decrease in revenue related to our Power Solutions business line as described below.

Net sales from our Display Solutions business line were \$207.5 million for the year ended December 31, 2015, a \$7.6 million, or 3.8%, increase from \$199.9 million for the year ended December 31, 2014. The increase in sales was primarily attributable to higher sales of Source Drivers among large display products, primarily for monitors, notebooks and TVs, which was partially offset by reduced sales of mobile display products.

Net sales from our Power Solutions business line were \$134.8 million for the year ended December 31, 2015, a \$2.4 million, or 1.7%, decrease from \$137.2 million for the year ended December 31, 2014. The decrease in sales was primarily attributable to reduced production of low gross margin Power Modules as part of our product portfolio optimization process, which was partially offset by increased demand for premium products such as high end MOSFETs and IGBTs primarily for mobile and industrial applications.

All Other. All other net sales were \$0.6 million for the year ended December 31, 2015 and December 31, 2014, respectively.

Gross Profit

Total gross profit was \$134.9 million for the year ended December 31, 2015 compared to \$152.9 million for the year ended December 31, 2014, an \$18.0 million, or 11.8%, decrease. Gross profit as a percentage of net sales for the year ended December 31, 2015 decreased slightly to 21.3% compared to 21.9% for the year ended December 31, 2014. The decrease in gross profit as a percentage of net sales was primarily attributable to the negative impact of unfavorable product mix and a lower utilization rate, partially offset by the positive impact of lower unit costs due to our cost reduction efforts from our Standard Products Group segment as further described below.

Foundry Services Group. Gross profit from our Foundry Services Group segment was \$66.2 million for the year ended December 31, 2015, a \$9.5 million, or 12.5%, decrease compared to \$75.7 million for the year ended December 31, 2014. Gross profit as a percentage of net sales for the year ended December 31, 2015 increased to 22.8% compared to 21.0% for the year ended December 31, 2014. The increase in gross profit as a percentage of net sales was mainly attributable to the positive impact of lower unit costs resulting from decrease in labor and utilities spending due to our continuing cost reduction efforts. This increase was partially offset by the negative impact of unfavorable product mix and a lower utilization rate mainly caused by reduced levels of demand from certain customers.

Standard Products Group. Gross profit from our Standard Products Group segment was \$68.1 million for the year ended December 31, 2015, a \$8.5 million, or 11.1%, decrease from \$76.6 million for the year ended December 31, 2014. Gross profit as a percentage of net sales for the year ended December 31, 2015 decreased to

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19.9% compared to 22.7% for the year ended December 31, 2014. The decrease in gross profit as a percentage of net sales was primarily attributable to the negative impact of a lower utilization rate mainly caused by reduced levels of demand from certain customers, and unfavorable product mix due to decrease in mobile display product sales and increase in large display products sales. This decrease was partially offset by lower unit costs resulting from decrease in spending related to labor and utilities due to our continuing cost reduction efforts.

All Other. All other gross profit was \$0.6 million for the year ended December 31, 2015 and December 31, 2014, respectively.

Net Sales by Geographic Region

We report net sales by geographic region based on the location to which the products are billed. The following table sets forth our net sales by geographic region and the percentage of total net sales represented by each geographic region for the years ended December 31, 2015 and 2014:

	Year Ended December 31, 2015		Year Ended December 31, 2014		Change Amount
	Amount	% of Net Sales	Amount	% of Net Sales	
	(In millions)				
Korea	\$241.7	38.1%	\$260.1	37.3%	\$(18.4)
Asia Pacific (other than Korea)	316.6	50.0	324.2	46.4	(7.7)
U.S.A.	51.2	8.1	91.3	13.1	(40.1)
Europe	23.5	3.7	21.2	3.0	2.3
Others	0.8	0.1	1.4	0.2	(0.6)
	<u>\$633.7</u>	<u>100.0%</u>	<u>\$698.2</u>	<u>100.0%</u>	<u>\$(64.5)</u>

Net sales in the U.S. for the year ended December 31, 2015 decreased from \$91.3 million to \$51.2 million compared to the year ended December 31, 2014, or by \$40.1 million, or 43.9%, primarily due to the decrease in demand of our foundry services from customers serving the high end smartphone market.

Net sales in Korea for the year ended December 31, 2015 decreased from \$260.1 million to \$241.7 million compared to the year ended December 31, 2014, or by \$18.4 million, or 7.1%, primarily due to discontinued use of a distributor in Korea and selling direct to OEM subsidiaries in Asia Pacific. This decrease was partially offset by higher sales of large display products such as Source Drivers primarily for monitors, notebooks and TVs.

Net sales in Asia Pacific for the year ended December 31, 2015 decreased from \$324.2 million to \$316.6 million compared to the year ended December 31, 2014, or by \$7.7 million, or 2.4%. The decrease was primarily attributable to the negative impact of decrease in demand due to discontinuation of a certain product by a customer serving the smartphone market, and reduced demand for mobile display products primarily for table PCs and feature phones. This decrease was partially offset by the positive impact of discontinued use of a distributor in Korea and selling direct to OEM subsidiaries in Asia Pacific.

Operating Expenses

Selling, General and Administrative Expenses. Selling, general and administrative expenses were \$94.4 million, or 14.9% of net sales for the year ended December 31, 2015, compared to \$127.0 million, or 18.2% of net sales for the year ended December 31, 2014. The decrease of \$32.6 million, or 25.7%, was primarily attributable to a \$28.5 million decrease in restatement related professional service fees and a \$2.6 million decrease in personnel costs due to our continuing cost reduction efforts.

Research and Development Expenses. Research and development expenses were \$83.4 million, or 13.2% of net sales for the year ended December 31, 2015, compared to \$92.8 million, or 13.3% of net sales for the year

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ended December 31, 2014. The decrease of \$9.3 million, or 10.0%, was primarily due to the decrease in material and personnel costs mainly due to our continuing cost reduction efforts.

Restructuring and Impairment Charges. Restructuring and impairment charges of \$10.3 million recorded for the year ended December 31, 2014 were related to the planned closure of our six-inch fabrication facilities.

Operating Loss

As a result of the foregoing, operating loss decreased by \$34.2 million in the year ended December 31, 2015 compared to the year ended December 31, 2014. As discussed above, the decrease in operating loss resulted from a \$32.6 million decrease in selling, general and administrative expenses, which were mainly driven by decreased professional service fees related to the restatement and certain litigation, a \$10.3 million decrease in restructuring and impairment charges and a \$9.3 million decrease in research and development expenses, which was partially offset by a \$18.0 million decrease in gross profit.

Other Income (Expense)

Interest Expense. Interest expense was \$16.3 million for the year ended December 31, 2015 and \$16.8 million for the year ended December 31, 2014, respectively.

Foreign Currency Loss, Net. Net foreign currency loss for the year ended December 31, 2015 was \$42.5 million, compared to net foreign currency loss of \$24.7 million for the year ended December 31, 2014. A substantial portion of our net foreign currency gain or loss is non-cash translation gain or loss associated with intercompany balances at our Korean subsidiary and is affected by changes in the exchange rate between the Korean won and the U.S. dollar. Foreign currency translation gain or loss from intercompany balances was included in determining our consolidated net income since the intercompany balances were not considered long-term investments in nature because management intended to settle these intercompany balances at their respective maturity dates.

Others, Net. Others were comprised of gains and losses on valuation of derivatives which were designated as hedging instruments, rental income and interest income. Others for the year ended December 31, 2015 and December 31, 2014 was \$1.8 million and \$2.9 million, respectively. The decrease of \$1.1 million was primarily attributable to net loss on valuation of derivatives due to hedge ineffectiveness.

Income Tax Expenses (Benefits)

We are subject to income taxes in the United States and many foreign jurisdictions and our effective tax rate is affected by changes in the mix of earnings between countries with differing tax rates. Our primary foreign operations are in Korea where the statutory tax rate applicable to us was approximately 24.2% in 2015 and 2014. Statutory tax rates for all foreign subsidiaries other than our Japanese subsidiary were less than the U.S. federal statutory rate of 35.0%.

We recorded income tax benefits of \$15.1 million for the year ended December 31, 2015 and income tax expenses of \$1.5 million for the year ended December 31, 2014. The effective tax rate was 15.1% for the year ended December 31, 2015, as compared to (1.3)% for the year ended December 31, 2014.

The income tax benefits computed at statutory tax rates for the years ended December 31, 2015 were substantially offset by changes in valuation allowance, the difference in foreign tax rates lower than the U.S. federal statutory rate and withholding taxes in our Dutch subsidiary. The significant increase in income tax benefits in 2015 is due to the reversal of withholding tax payable with respect to the waiver of the accrued interest on the loans granted to our Korean subsidiary by our Dutch subsidiary. On December 7, 2015, our Korean and Dutch subsidiaries agreed that our Dutch subsidiary waives and releases a partial amount of unpaid

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interest of \$174 million on its intercompany loans granted to our Korean subsidiary in order to decrease the cumulative losses of our Korean subsidiary to enhance the subsidiary's credit standing under the local banking rules. This transaction created a taxable income for our Korean subsidiary but did not result in a liability because of the utilization of expired loss carryforwards, which is deductible only against gains from cancellation of debt. The loss was not tax deductible for our Dutch subsidiary. This transaction also resulted in taxable loss for our Luxemburg subsidiary and this tax benefit was offset by an increase in the change in valuation allowance. In connection with the waiver of unpaid interest, the related withholding tax was reversed, resulting in the recognition of income tax benefit of \$17.8 million as of December 31, 2015.

We make an ongoing assessment regarding the realization of U.S. and non-U.S. deferred tax assets. The valuation allowances at December 31, 2015 and 2014 are primarily attributable to deferred tax assets for the uncertainty in taxable income at our Korean subsidiary for which we have recorded a full valuation allowance against the deferred tax assets, net of its deferred tax liabilities, and against certain of our foreign subsidiaries' deferred tax assets pertaining to their related tax loss carry-forwards and tax credits that are not anticipated to generate a tax benefit.

Net Loss

As a result of the foregoing, net loss decreased by \$32.3 million in the year ended December 31, 2015 compared to the year ended December 31, 2014. As discussed above, the decrease in net loss was primarily due to a \$34.2 million decrease in operating loss and a \$16.6 million decrease in income tax expenses, partially offset by a \$17.9 million increase in foreign currency loss.

Liquidity and Capital Resources

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

Our principal sources of liquidity are our cash, cash equivalents, our cash flows from operations and our financing activities. Our ability to manage cash and cash equivalents may be limited, as our primary cash flows are dictated by the terms of our sales and supply agreements, contractual obligations, debt instruments and legal and regulatory requirements. From time to time, we may sell accounts receivable to third parties under factoring agreements or engage in accounts receivable discounting to facilitate the collection of cash. For a description of our factoring arrangements and accounts receivable discounting, please see "Item 8. Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Note 3. Accounts Receivable" included elsewhere in this Report. In addition, from time to time, we may make payments to our vendors on extended terms with their consent. As of December 31, 2016, we do not have any accounts payable on extended terms or payment deferral with our vendors.

On January 17, 2017, MagnaChip Semiconductor S.A., our Luxembourg subsidiary, closed an offering (the "Notes Offering") of 5.00% Exchangeable Senior Notes due 2021 (the "Exchangeable Notes") with \$86.25 million aggregate principal amount, reflecting the full exercise of the initial purchasers' option to purchase additional Exchangeable Notes. We used the net proceeds from the Notes Offering to repurchase approximately \$11.4 million of our common stock as part of our stock repurchase program and plan to use the remaining net proceeds from the Notes Offering (i) for our anticipated cost reduction program to be implemented during 2017 (approximately \$30-40 million), (ii) for capital expenditures (approximately \$15-20 million), (iii) to repurchase additional common stock as part of our stock repurchase program (up to \$15 million in the aggregate) and (iv) for general corporate purposes.

We currently believe that we will have sufficient cash reserves from cash on hand and expected cash from operations to fund our operations and planned cost reduction program as well as capital expenditures for the next twelve months and the foreseeable future.

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Many of the aspects of management's plan, growth strategies and cost reduction programs involve management's judgments and estimates that include factors that may be beyond our control, and actual results could differ materially from our current expectations. As a result, these and other factors could cause our business plans, strategies and cost reduction program to be unsuccessful, which could have a material adverse effect on our operating results, financial condition and liquidity.

As of December 31, 2016, cash and cash equivalents held by our Korean subsidiary were \$74.3 million, which represents 89% of our total cash and cash equivalents of \$83.4 million on a consolidated basis. We, as a holding company resident in the United States, issued our 2021 Notes. Payments under our outstanding 2021 Notes are currently funded in part by our Korean subsidiary's repayment of its existing loans from our Dutch subsidiary, with our Dutch subsidiary using such repayments in turn to repay the loans owed to our Luxembourg subsidiary, which repays loans owed to us. Repatriation of funds could have potentially adverse tax consequences. Our Exchangeable Notes were issued by our Luxembourg subsidiary and the proceeds from the Notes Offering, currently held by our Luxembourg subsidiary, are expected to be transferred to our Dutch and Korean subsidiaries through new intercompany loans. Therefore, we expect payments under the Exchangeable Notes to be funded in part by our Korean subsidiary's repayment of its existing or new loans from our Dutch subsidiary, with our Dutch subsidiary using such repayments in turn to repay loans owed to our Luxembourg subsidiary.

Year ended December 31, 2016 compared to year ended December 31, 2015

As of December 31, 2016, our cash and cash equivalents balance was \$83.4 million, a \$7.5 million decrease, compared to \$90.9 million as of December 31, 2015. The decrease resulted from \$15.9 million of cash outflow used in investing activities, which was partially offset by \$7.6 million of cash inflow provided by operating activities and \$1.7 million of cash inflow provided by financing activities.

Cash inflow provided by operating activities totaled \$7.6 million for the year ended December 31, 2016, compared to \$10.0 million of cash outflow used in operating activities for the year ended December 31, 2015. The net operating cash inflow for the year ended December 31, 2016 reflects our net loss of \$29.6 million and non-cash adjustments of \$55.6 million, which mainly consisted of depreciation and amortization, provision for severance benefits and foreign currency loss, and a net decrease in operating assets and liabilities of \$18.4 million.

Our working capital balance as of December 31, 2016 was \$89.3 million compared to \$93.7 million as of December 31, 2015. The \$4.4 million decrease was primarily attributable to a \$7.5 million decrease in cash and cash equivalents, a \$26.1 million decrease in other receivables and an \$8.4 million increase in deposits received, which were partially offset by an \$18.3 million increase in restricted cash, a \$16.4 million decrease in accrued expenses and a \$4.0 million decrease in account payables.

Cash flow used in investing activities totaled \$15.9 million for the year ended December 31, 2016, compared to \$3.4 million for the year ended December 31, 2015. The increase was primarily attributable to a \$12.7 million increase in capital expenditures (including payments for intellectual property registration).

Cash inflow generated by financing activities totaled \$1.7 million for the year ended December 31, 2016, compared to \$3.4 million for the year ended December 31, 2015. The decrease was primarily attributable to a \$1.7 million decrease in proceeds received from the issuance of common stock in connection with exercised options.

We routinely make capital expenditures to enhance our existing facilities and reinforce our global research and development capability. For the year ended December 31, 2016, capital expenditures (including payments for intellectual property registration) were \$19.8 million, a \$12.7 million, or 178.8%, increase from \$7.1 million for the year ended December 31, 2015. The increase was mainly due to supporting technology improvements at our fabrication facilities in anticipation of attaining manufacturing efficiency.

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Year ended December 31, 2015 compared to year ended December 31, 2014

As of December 31, 2015, our cash and cash equivalents balance was \$90.9 million, a \$11.6 million decrease, compared to \$102.4 million as of December 31, 2014. The decrease resulted from \$10.0 million of cash outflow used in operating activities and \$3.4 million of cash outflow used in investing activities, which was partially offset by \$3.4 million of cash inflow provided by financing activities.

Cash outflow used in operating activities totaled \$10.0 million for the year ended December 31, 2015, compared to \$37.5 million of cash outflow used in operating activities in the year ended December 31, 2014. The net operating cash outflow for the year ended December 31, 2015 reflects our net loss of \$84.9 million and non-cash adjustments of \$94.6 million, which mainly consisted of depreciation and amortization, provision for severance benefits, a loss on foreign currency translation and an increase in net operating assets of \$19.7 million.

Our working capital balance as of December 31, 2015 was \$93.7 million compared to \$106.8 million as of December 31, 2014. The \$13.0 million decrease was primarily attributable to a \$11.6 million decrease in cash and cash equivalents, a \$17.7 million decrease in inventories, a \$9.5 million decrease in accounts receivable and a \$10.1 million increase in deferred revenue. These factors were partially offset by a \$21.3 million increase in other receivables, a \$15.3 million decrease in accounts payable and a \$4.3 million decrease in accrued expenses.

The decrease in inventories is primarily due to our efforts to better manage inventory levels. The decrease in accounts receivable is primarily due to timing of cash collection and the upfront payments received from certain customers for the sale of products prior to risk of loss being transferred based on the terms of the arrangement, and the increase in deferred revenue is mainly attributable to such upfront payments.

The increase in other receivables is mainly attributable to proceeds from insurance payments in the amount of \$2.4 million and proceeds of \$29.6 million from insurers. The decrease in accounts payable is primarily due to timing of payment for material purchases and the decrease in accrued expenses is primarily attributable to a write-off of withholding tax accrual resulting from a partial release of unpaid interest on intercompany loans granted to the Korean subsidiary by the Dutch subsidiary. This decrease in accrued expenses is partially offset by the increase in settlement payments of \$23.5 million related to the Class Action Litigation.

Cash flow used in investing activities totaled \$3.4 million in the year ended December 31, 2015, compared to \$16.7 million of cash used in investing activities in the year ended December 31, 2014. The decrease was primarily due to a decrease in capital expenditures (including payments for intellectual property registration) of \$11.3 million, partially offset by a \$6.3 million net increase in hedge collateral.

Cash inflows generated by financing activities totaled \$3.4 million for the year ended December 31, 2015, compared to \$0.1 million of cash outflow used in financing activities for the year ended December 31, 2014. The financing cash inflow for the year ended December 31, 2015 consisted of proceeds received from the issuance of common stock in connection with exercised options.

For the year ended December 31, 2015, capital expenditures (including payments for intellectual property registration) were \$7.1 million, an \$11.3 million, or 61.4%, decrease from \$18.4 million for the year ended December 31, 2014, due to acquisition of a specialized Epi tool and maintenance of our fab that occurred for the year ended December 31, 2014.

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Contractual Obligations

The following summarizes our contractual obligations as of December 31, 2016:

	Payments Due by Period						
	Total	2017	2018	2019	2020	2021	Thereafter
	(In millions)						
Senior notes(1)	\$299.5	\$14.9	\$14.9	\$14.9	\$14.9	\$239.9	\$ —
Operating leases(2)	37.4	4.8	2.8	2.3	2.2	1.8	23.5
Others(3)	10.3	6.5	3.0	0.5	0.4	—	—

- (1) Interest payments as well as \$225.0 million aggregate principal amount of the 2021 Notes outstanding as of December 31, 2016, which bear interest at a rate of 6.625% per annum and are scheduled to mature in 2021.
- (2) Assumes constant currency exchange rate for Korean won to U.S. dollars of 1,208.5:1, the exchange rate as of December 31, 2016
- (3) Includes license agreements and other contractual obligations.

The table above does not include interest payments on the \$86.25 million aggregate principal amount of our Exchangeable Notes issued on January 17, 2017, which are expected to be approximately \$4.3 million per year.

The Indenture relating to the 2021 Notes contains covenants that limit our ability and the ability of our restricted subsidiaries to: (i) declare or pay any dividend or make any payment or distribution on account of or purchase or redeem our capital stock or equity interests of the restricted subsidiaries; (ii) make any principal payment on, or redeem or repurchase, prior to any scheduled repayment or maturity, any subordinated indebtedness; (iii) make certain investments; (iv) incur additional indebtedness and issue certain types of capital stock; (v) create or incur any lien (except for permitted liens) that secures obligations under any indebtedness; (vi) merge with or into or sell all or substantially all of our assets to other companies; (vii) enter into certain types of transactions with affiliates; (viii) guarantee the payment of any indebtedness; (ix) enter into sale-leaseback transactions; (x) enter into agreements that would restrict the ability of the restricted subsidiaries to make distributions with respect to their equity to us or other restricted subsidiaries, to make loans to us or other restricted subsidiaries or to transfer assets to us or other restricted subsidiaries; and (xi) designate unrestricted subsidiaries.

These covenants are subject to a number of exceptions and qualifications. Certain of these restrictive covenants will terminate if the notes are rated investment grade at any time.

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

We follow US GAAP guidance on uncertain tax positions. Our unrecognized tax benefits totaled \$2.5 million as of December 31, 2016. These unrecognized tax benefits have been excluded from the above table because we cannot estimate the period of cash settlement with the respective taxing authorities.

Although we are obligated to pay severance benefits to eligible employees with one or more years of service upon the termination of their employment based on their length of service and rate pay, we have no obligation to fund the accrued severance benefits. Our accrued severance benefits totaled \$129.2 million as of December 31, 2016. Our obligations in connection with severance benefits have been excluded from the above table because we are unable to reasonably estimate the rate of termination and related cash payments for future periods.

Critical Accounting Policies and Estimates

Preparing financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements, the

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reported amounts of revenues and expenses during the reporting periods and the related disclosures in our consolidated financial statements and accompanying notes.

We believe that the accounting policies discussed below are critical due to the fact that they involve a high degree of judgment and estimates about the effects of matters that are inherently uncertain. We base these estimates and judgments on historical experience, knowledge of current conditions and other assumptions and information that we believe to be reasonable. Estimates and assumptions about future events and their effects cannot be determined with certainty. Accordingly, these estimates may change as new events occur, as more experience is acquired, as additional information is obtained and as the business environment in which we operate changes.

Revenue Recognition

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

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

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

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

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

All amounts billed to a customer related to shipping and handling are classified as sales while all costs incurred by us for shipping and handling are classified as selling, general and administrative expenses.

Sales of Accounts Receivable

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

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Product Warranties

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

Inventories

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

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

Vendor Rebates

We, from time to time, entered into arrangements whereby rebates are obtained from vendors when we achieve certain levels of purchases. The vendor rebates are computed at an agreed upon amount or percentage of purchase levels. As these vendor rebates are impacted by actual and estimated purchases for the applicable agreed upon period, we periodically assess the progress of our purchase levels and revise the estimates when necessary. We account for such rebates as a reduction of inventory until we sell the product, at which time such rebates are reflected as a reduction of cost of sales in our consolidated statements of operations. Vendor rebates recorded as a reduction of inventory were \$0.4 million as of December 31, 2016 and as a reduction of cost of sales were \$4.0 million for the year ended December 31, 2016.

Impairment of Long-Lived Assets

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

Intangible Assets

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

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Income Taxes

We account for income taxes in accordance with ASC 740, “Income Taxes” (“ASC 740”). ASC 740 requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in a company’s financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based upon the difference between the financial statement carrying amounts and the tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. Valuation allowances are established when it is necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable for the period and the change during the period in deferred tax assets and liabilities.

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

Derivative Financial Instruments

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

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

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

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

Recent Accounting Pronouncement

See Note 1 “Business, Basis of Presentation and Summary of Significant Accounting Policies” in the Notes to the Consolidated Financial Statements in Item 8 of Part II of this Annual Report on Form 10-K, for a full description of recent accounting pronouncements, including the expected dates of adoption, which is incorporated herein by reference.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

Foreign Currency Exposures

We have exposure to foreign currency exchange rate fluctuations on net income from our subsidiaries denominated in currencies other than U.S. dollars, as our foreign subsidiaries in Korea, Taiwan, China, Japan and Hong Kong use local currency as their functional currency. From time to time these subsidiaries have cash and financial instruments in local currency. The amounts held in Japan, Taiwan, Hong Kong and China are not material in regards to foreign currency movements. However, based on the cash and financial instruments balance at December 31, 2016 for our Korean subsidiary, a 10% devaluation of the Korean won against the U.S. dollar would have resulted in a decrease of \$1.2 million in our U.S. dollar financial instruments and cash balances.

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

Interest Rate Exposures

As of December 31, 2016, \$225.0 million aggregate principal amount of our 2021 Notes were outstanding. Interest on the 2021 Notes accrues at a fixed rate of 6.625% per annum and is paid semi-annually every January 15 and July 15 of each year until the 2021 Notes mature on July 15, 2021. Since the interest rate is fixed, we have no market risk related to the 2021 Notes.

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Item 8. Financial Statements and Supplementary Data

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
MagnaChip Semiconductor Corporation

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, comprehensive income/(loss), changes in shareholders' equity and cash flows present fairly, in all material respects, the financial position of MagnaChip Semiconductor Corporation and its subsidiaries (the "Company") at December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in Management's Annual Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

/s/ Samil PricewaterhouseCoopers

Seoul, Korea
February 21, 2017

MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2016	2015
(In thousands of US dollars, except share data)		
Assets		
Current assets		
Cash and cash equivalents	\$ 83,355	\$ 90,882
Restricted cash (Note 5)	18,251	—
Accounts receivable, net	61,775	63,498
Inventories, net	57,048	57,619
Other receivables (Note 18)	5,864	31,932
Prepaid expenses	8,137	7,075
Current deferred income tax assets	37	34
Hedge collateral (Note 8)	3,150	6,000
Other current assets	5,076	3,194
Total current assets	<u>242,693</u>	<u>260,234</u>
Property, plant and equipment, net	179,793	191,985
Intangible assets, net	3,085	2,629
Long-term prepaid expenses	9,556	12,117
Deferred income tax assets	193	238
Other non-current assets	6,632	6,897
Total assets	<u>\$ 441,952</u>	<u>\$ 474,100</u>
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 51,509	\$ 55,476
Other accounts payable	12,272	10,961
Accrued expenses	60,365	76,721
Deferred revenue	11,092	10,060
Deposits received (Note 5)	16,549	8,165
Other current liabilities	1,654	5,128
Total current liabilities	<u>153,441</u>	<u>166,511</u>
Long-term borrowings, net	221,082	220,375
Accrued severance benefits, net	129,225	134,148
Other non-current liabilities	10,318	15,396
Total liabilities	<u>514,066</u>	<u>536,430</u>
Commitments and contingencies (Note 18)		
Stockholders' equity		
Common stock, \$0.01 par value, 150,000,000 shares authorized, 41,627,103 shares issued and 35,048,338 outstanding at December 31, 2016 and 41,147,707 shares issued and 34,568,942 outstanding at December 31, 2015	416	411
Additional paid-in capital	130,189	124,618
Accumulated deficit	(125,825)	(96,210)
Treasury stock, 6,578,765 shares at December 31, 2016 and 2015, respectively	(90,918)	(90,918)
Accumulated other comprehensive income (loss)	14,024	(231)
Total stockholders' deficit	<u>(72,114)</u>	<u>(62,330)</u>
Total liabilities and stockholders' equity	<u>\$ 441,952</u>	<u>\$ 474,100</u>

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

MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2016	2015	2014
	(In thousands of US dollars, except share data)		
Net sales	\$ 687,969	\$ 633,712	\$ 698,218
Cost of sales	531,743	498,848	545,356
Gross profit	<u>156,226</u>	<u>134,864</u>	<u>152,862</u>
Operating expenses			
Selling, general and administrative expenses	89,094	94,378	126,954
Research and development expenses	72,180	83,420	92,765
Restructuring and impairment charges (gain)	(7,785)	—	10,269
Total operating expenses	<u>153,489</u>	<u>177,798</u>	<u>229,988</u>
Operating income (loss)	2,737	(42,934)	(77,126)
Interest expense	(16,238)	(16,268)	(16,833)
Foreign currency loss, net	(15,360)	(42,531)	(24,650)
Other income, net	2,990	1,779	2,900
Loss before income tax expenses	(25,871)	(99,954)	(115,709)
Income tax expenses (benefits)	3,744	(15,087)	1,523
Net loss	<u>\$ (29,615)</u>	<u>\$ (84,867)</u>	<u>\$ (117,232)</u>
Loss per common share—			
Basic/ Diluted	<u>\$ (0.85)</u>	<u>\$ (2.47)</u>	<u>\$ (3.44)</u>
Weighted average number of shares—			
Basic/ Diluted	34,833,967	34,380,517	34,055,513

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

MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME / (LOSS)

	Year Ended December 31,		
	2016	2015	2014
	(In thousands of US dollars)		
Net loss	\$(29,615)	\$(84,867)	\$(117,232)
Other comprehensive income			
Foreign currency translation adjustments	14,650	35,361	21,775
Derivative adjustments			
Fair valuation of derivatives	(1,032)	(3,748)	(69)
Reclassification adjustment for loss (gain) on derivatives included in net loss	637	3,222	(6,033)
Investment adjustments			
Unrealized gain on investments	—	—	1,201
Reclassification adjustment for gain on investments included in net loss	—	—	(1,882)
Total other comprehensive income	14,255	34,835	14,992
Total comprehensive loss	\$(15,360)	\$(50,032)	\$(102,240)

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

MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(In thousands of US dollars, except share data)	Common Stock		Additional Paid-In Capital	Retained Earnings (Deficit)	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount					
Balance at January 1, 2014	34,048,366	\$ 406	\$ 116,222	\$ 105,889	\$ (90,918)	\$ (50,058)	\$ 81,541
Stock-based compensation	—	—	2,072	—	—	—	2,072
Exercise of stock options	6,795	—	106	—	—	—	106
Exercise of warrants	1,307	—	19	—	—	—	19
Other comprehensive income, net	—	—	—	—	—	14,992	14,992
Net loss	—	—	—	(117,232)	—	—	(117,232)
Balance at December 31, 2014	34,056,468	\$ 406	\$ 118,419	\$ (11,343)	\$ (90,918)	\$ (35,066)	\$ (18,502)
Stock-based compensation	—	—	2,768	—	—	—	2,768
Exercise of stock options	512,474	5	3,431	—	—	—	3,436
Other comprehensive income, net	—	—	—	—	—	34,835	34,835
Net loss	—	—	—	(84,867)	—	—	(84,867)
Balance at December 31, 2015	34,568,942	\$ 411	\$ 124,618	\$ (96,210)	\$ (90,918)	\$ (231)	\$ (62,330)
Stock-based compensation	—	—	3,843	—	—	—	3,843
Exercise of stock options	296,103	3	1,730	—	—	—	1,733
Settlement of restricted stock units	183,293	2	(2)	—	—	—	—
Other comprehensive income, net	—	—	—	—	—	14,255	14,255
Net loss	—	—	—	(29,615)	—	—	(29,615)
Balance at December 31, 2016	35,048,338	\$ 416	\$ 130,189	\$ (125,825)	\$ (90,918)	\$ 14,024	\$ (72,114)

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

MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2016	2015	2014
(In thousands of US dollars)			
Cash flows from operating activities			
Net loss	\$(29,615)	\$ (84,867)	\$(117,232)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities			
Depreciation and amortization	25,416	26,490	29,989
Provision for severance benefits	14,432	15,289	17,703
Bad debt expenses (reversal of allowance)	(148)	(3)	3,718
Amortization of debt issuance costs and original issue discount	707	660	614
Loss on foreign currency, net	18,884	46,984	32,760
Gain on disposal of investments	—	—	(1,524)
Impairment charges	—	—	10,269
Stock-based compensation	3,843	2,768	2,072
Restructuring gain	(7,785)	—	—
Other	251	2,437	1,375
Changes in operating assets and liabilities			
Accounts receivable, net	285	3,299	(1,668)
Inventories, net	(557)	12,929	(3,380)
Other receivables	19,125	(21,463)	(5,052)
Other current assets	5,000	11,339	9,308
Deferred tax assets	65	372	1,458
Accounts payable	(4,163)	(12,605)	(1,526)
Other accounts payable	(6,603)	(10,892)	(13,046)
Accrued expenses	(16,305)	(1,679)	208
Deferred revenue	1,674	8,136	(825)
Other current liabilities	(5,331)	(1,210)	2,004
Other non-current liabilities	(1,574)	3,105	1,963
Payment of severance benefits	(15,352)	(11,394)	(6,650)
Other (Note 18)	5,382	328	(7)
Net cash provided by (used in) operating activities	<u>7,631</u>	<u>(9,977)</u>	<u>(37,469)</u>
Cash flows from investing activities			
Proceeds from settlement of hedge collateral	6,317	10,841	—
Payment of hedge collateral	(3,552)	(17,182)	—
Proceeds from disposal of plant, property and equipment	688	9,886	20
Proceeds from disposal of investments	—	—	2,003
Purchase of property, plant and equipment	(18,727)	(6,350)	(17,419)
Payment for intellectual property registration	(1,049)	(742)	(958)
Collection of guarantee deposits	619	636	—
Payment of guarantee deposits	(193)	(675)	(323)
Other	23	195	(21)
Net cash used in investing activities	<u>(15,874)</u>	<u>(3,391)</u>	<u>(16,698)</u>
Cash flows from financing activities			
Proceeds from issuance of common stock	1,732	3,436	68
Net cash provided by financing activities	<u>1,732</u>	<u>3,436</u>	<u>68</u>
Effect of exchange rates on cash and cash equivalents	<u>(1,016)</u>	<u>(1,620)</u>	<u>2,927</u>
Net decrease in cash and cash equivalents	<u>(7,527)</u>	<u>(11,552)</u>	<u>(51,172)</u>
Cash and cash equivalents			
Beginning of the period	90,882	102,434	153,606
End of the period	<u>\$ 83,355</u>	<u>\$ 90,882</u>	<u>\$ 102,434</u>
Supplemental cash flow information			
Cash paid for interest	<u>\$ 14,906</u>	<u>\$ 15,181</u>	<u>\$ 14,817</u>
Cash paid (refunded) for income taxes	<u>\$ 693</u>	<u>\$ (5,276)</u>	<u>\$ 875</u>
Non-cash investing and financing activities			
Property, plant and equipment additions in other accounts payable	<u>\$ 3,091</u>	<u>\$ 3,348</u>	<u>\$ 688</u>
Restricted cash received from sale of property, plant and equipment	<u>\$(16,917)</u>	<u>\$ —</u>	<u>\$ —</u>

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

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

Business

MagnaChip Semiconductor Corporation (together with its subsidiaries, the “Company”) is a Korea-based designer and manufacturer of analog and mixed-signal semiconductor products for consumer, computing, communication, industrial, automotive and Internet of Things (“IoT”) applications. The Company provides technology platforms for analog, mixed signal, power, high voltage, non-volatile memory and Radio Frequency (“RF”) applications. The Company’s business is comprised of two operating segments: Foundry Services Group and Standard Products Group. The Company’s Foundry Services Group provides specialty analog and mixed-signal foundry services mainly for fabless and Integrated Device Manufacturer (“IDM”) semiconductor companies that primarily serve the consumer, computing, communication, industrial, automotive and IoT applications. The Company’s Standard Products Group is comprised of two business lines: Display Solutions and Power Solutions. The Company’s Display Solutions products provide flat panel display solutions to major suppliers of large and small flat panel displays and include sensor products for mobile applications, and industrial applications and home appliances. The Company’s Power Solutions products include discrete and integrated circuit solutions for power management in consumer, communication and industrial applications.

Basis of Presentation

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

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

Principles of Consolidation

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

Use of Estimates

The preparation of financial statements in accordance with US GAAP requires management to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the amounts of assets and liabilities reported, disclosures about contingent assets and liabilities, and reported amounts of revenue and expenses. Such estimates include the valuation of accounts receivable, inventories, stock based compensation, property plant and equipment, intangible assets, other long-lived assets, long-term employee benefits, contingencies liabilities, estimated future cash flows and other assumptions used in long-lived asset impairment tests and calculation of income taxes and deferred tax valuation allowances, and assumptions used in the calculation of sales incentives, among others. Although these estimates and assumptions are based on management’s best knowledge of current events and actions that the Company may undertake in the future, actual results may be significantly different from the estimates. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

Foreign Currency Translation

The Company has assessed in accordance with Accounting Standards Codification (ASC) 830, “Foreign Currency Matters” (“ASC 830”), the functional currency of each of its subsidiaries in Luxembourg and the Netherlands and has designated the U.S. dollar to be their respective functional currencies. The Korean Won is

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

Cash and Cash Equivalents

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

Accounts Receivable Reserves

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

Sales of Accounts Receivable

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

Inventories

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

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

Vendor Rebates

The Company, from time to time, entered into arrangements whereby rebates are obtained from vendors when the Company achieves certain levels of purchases. The vendor rebates are computed at an agreed upon amount or percentage of purchase levels. As these vendor rebates are impacted by actual and estimated purchases for the applicable agreed upon period, the Company periodically assess the progress of its purchase levels and revise the estimates when necessary. The Company accounts for such rebates as a reduction of inventory until the Company sells the product, at which time such rebates are reflected as a reduction of cost of sales in its consolidated statements of operations. Vendor rebates recorded as a reduction of inventory were \$359 thousand as of December 31, 2016 and as a reduction of cost of sales were \$4,044 thousand for the year ended December 31, 2016.

Property, Plant and Equipment

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

Buildings	30 - 40 years
Building related structures	10 - 20 years
Machinery and equipment	10 - 12 years
Others	3 - 10 years

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

Impairment of Long-Lived Assets

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

Restructuring Charges

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

Lease Transactions

The Company accounts for lease transactions as either operating leases or capital leases, depending on the terms of the underlying lease agreements. Machinery and equipment acquired under capital lease agreements are

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

Intangible Assets

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

Fair Value Disclosures of Financial Instruments

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

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

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

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

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

Accrued Severance Benefits

The majority of accrued severance benefits is for employees in the Company’s Korean subsidiary, MagnaChip Semiconductor Ltd. Pursuant to the Employee Retirement Benefit Security Act of Korea, eligible

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employees and executive officers with one or more years of service are entitled to severance benefits upon the termination of their employment based on their length of service and rate of pay. As of December 31, 2016, 98% of all employees of the Company were eligible for severance benefits.

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

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

Revenue Recognition

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

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

The Company recorded deferred revenue in the amount of \$11,092 thousand as of December 31, 2016 and \$10,060 thousand as of December 31, 2015 as the Company received cash from certain customers and distributors for the sale of products prior to risk of loss being transferred based on the terms of the arrangement.

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

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

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

All amounts billed to a customer related to shipping and handling are classified as sales while all costs incurred by the Company for shipping and handling are classified as selling, general and administrative expenses. The amounts charged to selling, general and administrative expenses were \$1,631 thousand, \$2,394 thousand, and \$3,386 thousand for the years ended December 31, 2016, 2015 and 2014, respectively.

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Derivative Financial Instruments

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

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

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

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

Advertising

The Company expenses advertising costs as incurred. Advertising expense was approximately \$149 thousand, \$144 thousand and \$155 thousand for the years ended December 31, 2016, 2015 and 2014, respectively.

Product Warranties

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

Research and Development

Research and development costs are expensed as incurred and include wafers, masks, employee expenses, contractor fees, building costs, utilities and administrative expenses.

Licensed Patents and Technologies

The Company has entered into a number of royalty agreements to license patents and technology used in the design of its products. The Company carries two types of royalties: lump-sum and running basis. Lump-sum

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royalties which require initial payments, usually paid in installments, represent a non-refundable commitment, such that the total present value of these payments is recorded as a prepaid expense and a liability upon execution of the agreements and the costs are amortized over the contract period using the straight-line method and charged to research and development expenses in the consolidated statements of operations.

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

Stock-Based Compensation

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

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

Earnings per Share

In accordance with ASC 260, “Earnings Per Share”, the Company computes basic earnings per share by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflect the dilution of potential common stock outstanding during the period. In determining the hypothetical shares repurchased, the Company uses the average share price for the period. In the case that earnings are negative, any potential common stock equivalents would have the effect of being anti-dilutive in the computation of net loss per share.

Income Taxes

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

The Company recognizes and measures uncertain tax positions taken or expected to be taken in a tax return utilizing a two-step process. In the first step, recognition, the Company determines whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The second step addresses measurement of a

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tax position that meets the more-likely-than-not criteria. The tax position is measured at the largest amount of benefit that has a likelihood of greater than 50 percent of being realized upon ultimate settlement.

Concentration of Credit Risk

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

Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-15, Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments ("ASU 2016-15"). ASU 2016-15 reduces the existing diversity in practice in financial reporting across all industries by clarifying certain existing principles in ASC 230, Statement of Cash Flows, ("ASC 230") including providing additional guidance on how and what an entity should consider in determining the classification of certain cash flows. In addition, in November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230), Restricted Cash ("ASU 2016-18"). ASU 2016-18 clarifies certain existing principles in ASC 230, including providing additional guidance related to transfers between cash and restricted cash and how entities present, in their statement of cash flows, the cash receipts and cash payments that directly affect the restricted cash accounts. These ASUs are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. The Company does not expect the adoption of ASU 2016-15 to have a material effect on the Company's consolidated financial statements. The adoption of ASU 2016-18 will modify the Company's current disclosures by reclassifying certain balances within the consolidated statement of cash flows, but this is not expected to have a material effect on the Company's consolidated financial statements.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, "Improvements to Employee Share-Based Payment Accounting" ("ASU 2016-09"). ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. ASU 2016-09 can be applied either on a retrospective or prospective basis and is effective for fiscal years beginning after December 15, 2016 and interim periods within those years. The Company will adopt ASU 2016-09 in the first quarter of 2017. The primary impact of adoption will be the recognition of excess tax benefits within income tax provision rather than within shareholders' equity, which the Company will adopt on a prospective basis. As the Company does not have a significant amount of excess tax benefits from share-based payment transactions, it does not expect the adoption of ASU 2016-09 to have a material effect on its consolidated financial statements.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, "Leases (Topic 842)" ("ASU 2016-02") in order to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet for those leases classified as operating leases under US GAAP. ASU 2016-02 requires that a lessee should recognize a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term on the balance sheet. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those reporting periods using a modified retrospective approach and early adoption is permitted. The Company is performing a preliminary review of its contracts that are expected to be applied under the new guidance.

In November 2015, the Financial Accounting Standard Board ("FASB") issued Accounting Standards Update No. 2015-17, "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes" ("ASU 2015-

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17”). The amendments in ASU 2015-17 require an entity to classify all deferred tax assets and liabilities as noncurrent. ASU 2015-17 is effective for fiscal years beginning after December 15, 2016 and interim periods within those years. The Company will adopt ASU 2015-17 in the first quarter of 2017. As the Company does not have a significant balance of current deferred tax assets and liabilities, it believes that the implementation of this guidance will have no material impact on its consolidated financial statements.

In July 2015, the FASB issued Accounting Standards Update No. 2015-11, “Simplifying the Measurement of Inventory” (“ASU 2015-11”). Under this ASU, inventory will be measured at the lower of cost and net realizable value, and options that currently exist for market value will be eliminated. Net realizable value is defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. No other changes were made to the current guidance on inventory measurement. ASU 2015-11 is effective for fiscal years beginning after December 15, 2016 and interim periods within those years. The Company will adopt ASU 2015-11 in the first quarter of 2017 and believes that the implementation of this guidance will have no material impact on its consolidated financial statements.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“ASU 2014-09”). ASU 2014-09 supersedes the revenue recognition requirements in “Revenue Recognition (Topic 605)”, and requires entities to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016 (the “Original Effective Date”), including interim periods within that reporting period, and can be adopted either retrospectively to each prior period presented or as a cumulative-effect adjustment as of the date of adoption, with early application permitted as of the Original Effective Date. In August 2015, the FASB issued ASU 2015-14 “Deferral of the Effective Date,” which defers the required adoption date of ASU 2014-09 by one year. As a result of the deferred effective date, ASU 2014-09 will be effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. In March 2016, the FASB issued Accounting Standards Update No. 2016-08, “Revenue from Contracts with Customers (Topic 606), Principal versus Agent Considerations (Reporting Revenue Gross versus Net)” (“ASU 2016-08”) clarifying the implementation guidance on principal versus agent considerations. Specifically, an entity is required to determine whether the nature of a promise is to provide the specified good or service itself (that is, the entity is a principal) or to arrange for the good or service to be provided to the customer by the other party (that is, the entity is an agent). The determination influences the timing and amount of revenue recognition. In May 2016, the FASB issued Accounting Standards Update No. 2016-12, “Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients” (“ASU 2016-12”) clarifying how to assess collectibility, present sales tax, treat noncash consideration, and account for completed and modified contracts at the time of transition. In addition, ASU 2016-12 clarifies that an entity retrospectively applying the guidance in Topic 606 is not required to disclose the effect of the accounting change in the period of adoption. The effective date and transition requirements for ASU 2016-12, ASU 2016-08 and ASU 2014-09 are the same. Finally, ASU 2016-20 makes minor corrections or minor improvements to the Codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. The Company started analyzing the potential impact of applying the new guidance by reviewing its current accounting policies, customer arrangements and practices. The Company has not selected a transition method nor have we determined the effect of the standard to the Company’s consolidated financial statements.

Recently Adopted Accounting Pronouncements

In April 2015, the FASB issued Accounting Standards Update No. 2015-03, “Interest—Imputation of Interest” (“ASU 2015-03”). ASU 2015-03 requires that debt issuance costs be presented in the balance sheet as a

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direct deduction from the carrying amount of debt liability, consistent with debt discounts or premiums. The recognition and measurement guidance for debt issuance costs would not be affected. Prior to the issuance of ASU 2015-03, debt issuance costs were required to be presented as an asset in the balance sheet. The Company adopted ASU 2015-03 in the first quarter of fiscal 2016 and recorded \$3,203 thousand of debt issuance costs as a reduction of long-term borrowings as of December 31, 2016. Pursuant to ASU 2015-03, the Company reclassified all prior periods presented in its consolidated balance sheets to conform to the current period presentation, resulting in the reclassification of debt issuance costs of \$3,781 thousand from other non-current assets to a reduction of long-term borrowings as of December 31, 2015. The adoption of ASU 2015-03 did not impact the Company’s consolidated statements of operations and cash flows.

In August 2014, the FASB issued Accounting Standards Update No. 2014-15, “Presentation of Financial Statements – Going Concern” (“ASU 2014-15”), which provides guidance on determining when and how to disclose going-concern uncertainties in the financial statements. ASU 2014-15 requires management to perform interim and annual assessments of an entity’s ability to continue as a going concern within one year of the date the financial statements are issued. An entity will be required to provide certain disclosures if conditions of events raise substantial doubt about the entity’s ability to continue as a going concern. ASU 2014-15 was effective for the Company in the fourth quarter of 2016. The adoption of ASU 2014-15 did not impact the Company’s consolidated financial statements.

2. Fair Value Measurements

ASC 820 defines fair value, establishes a consistent framework for measuring fair value and expands disclosure requirements about fair value measurements. ASC 820 requires, among other things, the Company’s valuation techniques used to measure fair value to maximize the use of observable inputs and minimize the use of unobservable inputs.

Fair Value of Financial Instruments

As of December 31, 2016, the following table represents the Company’s liabilities measured at fair value on a recurring basis and the basis for that measurement (in thousands):

	<u>Carrying Value</u> <u>December 31, 2016</u>	<u>Fair Value</u> <u>Measurement</u> <u>December 31, 2016</u>	<u>Quoted Prices in</u> <u>Active Markets</u> <u>for Identical</u> <u>Asset (Level 1)</u>	<u>Significant</u> <u>Other</u> <u>Observable</u> <u>Inputs</u> <u>(Level 2)</u>	<u>Significant</u> <u>Unobservable</u> <u>Inputs</u> <u>(Level 3)</u>
Liabilities:					
Derivative liabilities (other current liabilities)	\$ 453	\$ 453	—	\$ 453	—

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As of December 31, 2015, the following table represents the Company's liabilities measured at fair value on a recurring basis and the basis for that measurement (in thousands):

	Carrying Value December 31, 2015	Fair Value Measurement December 31, 2015	Quoted Prices in Active Markets for Identical Asset (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities:					
Derivative liabilities (other current liabilities)	\$ 40	\$ 40	—	\$ 40	—

Items not reflected in the table above include cash and cash equivalents, restricted cash, accounts receivable, other receivables, accounts payable, and other accounts payable, fair value of which approximate carrying values due to the short-term nature of these instruments. The fair value of assets and liabilities whose carrying value approximates fair value is determined using Level 2 inputs, with the exception of cash (Level 1).

Fair Value of Long-term Borrowings

	December 31, 2016		December 31, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In thousands of US dollars)			
Long-term Borrowings:				
6.625% senior notes due July 2021 (Level 2)	\$221,082	\$193,500	\$220,375	\$157,500

On July 18, 2013, the Company issued 6.625% senior notes due July 15, 2021 (the "2021 Notes") of \$225.0 million, which represents the principal amount, excluding \$1.1 million of original issue discount and \$5.1 million of debt issuance costs. The Company estimates the fair value of the 2021 Notes using the market approach, which utilizes quoted market prices that fall under Level 2. For further description of the 2021 Notes, see Note 10, "Long-term Borrowings".

Fair Values Measured on a Non-recurring Basis

The Company's non-financial assets, such as property, plant and equipment, and intangible assets are recorded at fair value upon acquisition and are remeasured at fair value only if an impairment charge is recognized. As of December 31, 2016 and 2015, the Company did not have any assets or liabilities measured at fair value on a non-recurring basis.

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3. Accounts Receivable

Accounts receivable as of December 31, 2016 and 2015 consisted of the following (in thousands):

	December 31,	
	2016	2015
Accounts receivable	\$63,116	\$60,892
Notes receivable	281	4,803
Less:		
Allowances for doubtful accounts	(83)	(236)
Sales return reserves	(1,107)	(1,481)
Low yield compensation reserve	(432)	(480)
Accounts receivable, net	<u>\$61,775</u>	<u>\$63,498</u>

Changes in allowance for doubtful accounts for the years ended December 31, 2016, 2015 and 2014 are as follows (in thousands):

	Year Ended December 31,		
	2016	2015	2014
Beginning balance	\$ (236)	\$ (263)	\$ (268)
Reversal (Provision)	148	3	(3,718)
Write off	—	—	3,508
Translation adjustments	5	24	215
Ending balance	<u>\$ (83)</u>	<u>\$ (236)</u>	<u>\$ (263)</u>

Changes in sales return reserves for the years ended December 31, 2016, 2015 and 2014 are as follows (in thousands):

	Year Ended December 31,		
	2016	2015	2014
Beginning balance	\$ (1,481)	\$ (787)	\$ (1,205)
Provision	(26)	(1,586)	(3,224)
Usage	361	851	3,598
Translation adjustments	39	41	44
Ending balance	<u>\$ (1,107)</u>	<u>\$ (1,481)</u>	<u>\$ (787)</u>

Changes in low yield compensation reserve for the years ended December 31, 2016, 2015 and 2014 are as follows (in thousands):

	Year Ended December 31,		
	2016	2015	2014
Beginning balance	\$ (480)	\$ (1,100)	\$ (1,951)
Reversal (Provision)	(29)	69	(766)
Usage	63	512	1,563
Translation adjustments	14	39	54
Ending balance	<u>\$ (432)</u>	<u>\$ (480)</u>	<u>\$ (1,100)</u>

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The Company has entered into an agreement to sell selected trade accounts receivable to a financial institution from time to time since March 2012. After the sale, the Company does not retain any interest in the receivables and the applicable financial institution collects these accounts receivable directly from the customer. The proceeds from the sales of these accounts receivable totaled \$25,146 thousand, \$57,185 thousand and \$22,256 for the years ended December 31, 2016, 2015 and 2014, respectively, and these sales resulted in pre-tax losses of \$78 thousand, \$114 thousand and \$64 thousand for the years ended December 31, 2016, 2015 and 2014, respectively, which are included in selling, general and administrative expenses in the consolidated statements of operations. Net proceeds of the accounts receivable sale program are recognized in the consolidated statements of cash flows as part of operating cash flows.

The Company uses receivable discount programs with certain customers. These discount arrangements allow the Company to accelerate collection of customers' receivables.

4. Inventories

Inventories as of December 31, 2016 and 2015 consist of the following (in thousands):

	<u>Year Ended December 31,</u>	
	<u>2016</u>	<u>2015</u>
Finished goods	7,867	18,427
Semi-finished goods and work-in-process	46,653	47,131
Raw materials	7,846	5,987
Materials in-transit	1,859	2,107
Less: inventory reserve	<u>(7,177)</u>	<u>(16,033)</u>
Inventories, net	<u>\$57,048</u>	<u>\$ 57,619</u>

Changes in inventory reserve for the years ended December 31, 2016, 2015 and 2014 are as follows (in thousands):

	<u>Year Ended December 31,</u>		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Beginning balance	\$(16,033)	\$(47,488)	\$(72,400)
Change in reserve	(2,661)	297	(883)
Write off	11,384	29,146	23,765
Translation adjustments	133	2,012	2,030
Ending balance	<u>\$ (7,177)</u>	<u>\$ (16,033)</u>	<u>\$ (47,488)</u>

Inventory reserve represents the Company's best estimate in value lost due to excessive inventory level, physical deterioration, obsolescence, changes in price levels, or other causes based on individual facts and circumstances. Inventory reserve relates to inventory items including finished goods, semi-finished goods and work-in-process. Write off of this reserve is recognized only when the related inventory has been disposed or scrapped.

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5. Property, Plant and Equipment

Property, plant and equipment as of December 31, 2016 and 2015 are comprised of the following (in thousands):

	December 31,	
	2016	2015
Buildings and related structures	\$ 64,939	\$ 66,487
Machinery and equipment	255,618	256,259
Others	29,492	27,075
	350,049	349,821
Less: accumulated depreciation	(184,521)	(172,546)
Land	14,265	14,710
Property, plant and equipment, net	<u>\$ 179,793</u>	<u>\$ 191,985</u>

Aggregate depreciation expenses totaled \$24,941 thousand and \$26,130 thousand for the years ended December 31, 2016 and 2015, respectively.

As of December 21, 2016, The Company entered into a purchase and sale agreement to sell a building located in Cheongju, South Korea. The building has historically been used to house the 6-inch fab and became vacant upon the closure of the fabrication facility. As of December 31, 2015, the building was fully impaired. The Company received proceeds of \$18,204 thousand, including a \$1,655 thousand value-added tax, for the sale of the building on December 26, 2016. The Company is obligated to perform certain removal construction work that is expected to be completed by the end of March 2017. Accordingly, the Company recorded the \$18,204 thousand proceeds as restricted cash and \$16,549 thousand as deposits received in its consolidated balance sheets as of December 31, 2016.

6. Intangible Assets

Intangible assets as of December 31, 2016 and 2015 are comprised of the following (in thousands):

	December 31, 2016		
	Gross amount	Accumulated amortization	Net amount
Technology	\$17,903	\$ (17,903)	\$ —
Customer relationships	25,712	(25,712)	—
Intellectual property assets	9,026	(5,941)	3,085
Intangible assets, net	<u>\$52,641</u>	<u>\$ (49,556)</u>	<u>\$3,085</u>

	December 31, 2015		
	Gross amount	Accumulated amortization	Net amount
Technology	\$18,460	\$ (18,460)	\$ —
Customer relationships	26,513	(26,513)	—
Intellectual property assets	8,357	(5,728)	2,629
Intangible assets, net	<u>\$53,330</u>	<u>\$ (50,701)</u>	<u>\$2,629</u>

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Aggregate amortization expense for intangible assets totaled \$475 thousand and \$360 thousand for the years ended December 31, 2016 and 2015, respectively. The aggregate amortization expense of intangible assets for the next five years are estimated to be \$525 thousand, \$525 thousand, \$524 thousand, \$504 thousand and \$470 thousand, for the years ended December 31, 2017, 2018, 2019, 2020 and 2021, respectively.

7. Accrued Expenses

Accrued expenses as of December 31, 2016 and 2015 are comprised of the following (in thousands):

	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
Payroll, benefits and related taxes, excluding severance benefits	\$24,982	\$18,831
Withholding tax attributable to intercompany interest income	15,573	13,130
Interest on senior notes	6,831	6,831
Settlement obligations	243	1,012
Accrued claim settlement	—	23,500
Outside service fees	4,423	4,327
Others	8,313	9,090
Accrued expenses	<u>\$60,365</u>	<u>\$76,721</u>

Accrued claim settlement included in the table above relates to the Company's securities class action complaints. On December 10, 2015, it was determined that the Company was obligated to make an aggregate settlement payment of \$23,500 thousand, which includes all attorneys' fees, costs of administration and plaintiffs' out-of-pocket expenses, lead plaintiff compensatory awards and disbursements. In connection with the securities class action complaints, the Company also settled with its insurers and obtained proceeds of \$29,571 thousand in the first quarter of 2016, and disbursed the \$23,500 thousand from the escrow account, recorded as restricted cash, in the third quarter of 2016. For more information on the accrued claim settlement, see "Note 18. Commitments and Contingencies".

Payroll, benefits and related taxes payable as of December 31, 2016 in the table above includes unpaid other termination benefits under the voluntary resignation program of \$1,392 thousand, the remaining balance of the \$4,241 thousand total aggregate expense for such benefits accrued during the second quarter of 2016 and being paid out in equal monthly installments over the twelve month period which began in May 2016.

8. Derivative Financial Instruments

The Company's Korean subsidiary from time to time has entered into zero cost collar contracts to hedge the risk of changes in the functional-currency-equivalent cash flows attributable to currency rate changes on U.S. dollar denominated revenues.

Details of derivative contracts as of December 31, 2016 are as follows (in thousands):

<u>Date of transaction</u>	<u>Type of derivative</u>	<u>Total notional amount</u>	<u>Month of settlement</u>
November 11, 2016	Zero cost collar	\$ 18,000	March to August 2017

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Details of derivative contracts as of December 31, 2015 are as follows (in thousands):

<u>Date of transaction</u>	<u>Type of derivative</u>	<u>Total notional amount</u>	<u>Month of settlement</u>
September 30, 2015	Zero cost collar	\$ 30,000	January to March 2016
September 30, 2015	Zero cost collar	\$ 30,000	April to June 2016

The zero cost collar contracts qualify as cash flow hedges under ASC 815, “Derivatives and Hedging,” since at both the inception of the contracts and on an ongoing basis, the hedging relationship was and is expected to be highly effective in achieving offsetting cash flows attributable to the hedged risk during the term of the contracts. The Company is utilizing the “hypothetical derivative” method to measure the effectiveness by comparing the changes in value of the actual derivative versus the change in fair value of the “hypothetical derivative.”

The fair values of the Company’s outstanding zero cost collar contracts recorded as liabilities as of December 31, 2016 and 2015 are as follows (in thousands):

<u>Derivatives designated as hedging instruments:</u>	<u>December 31,</u>	
	<u>2016</u>	<u>2015</u>
<u>Liability Derivatives:</u>		
Zero cost collars	Other current liabilities	\$ 453 \$ 40

Offsetting of derivative liabilities as of December 31, 2016 is as follows (in thousands):

<u>As of December 31, 2016</u>	<u>Gross amounts of recognized liabilities</u>	<u>Gross amounts offset in the balance sheets</u>	<u>Net amounts of liabilities presented in the balance sheets</u>	<u>Gross amounts not offset in the balance sheets</u>		<u>Net amount</u>
				<u>Financial instruments</u>	<u>Cash collateral pledged</u>	
<u>Liability Derivatives:</u>						
Zero cost collars	\$ 453	\$ —	\$ 453	\$ —	\$ (650)	\$ (197)

Offsetting of derivative liabilities as of December 31, 2015 is as follows (in thousands):

<u>As of December 31, 2015</u>	<u>Gross amounts of recognized liabilities</u>	<u>Gross amounts offset in the balance sheets</u>	<u>Net amounts of liabilities presented in the balance sheets</u>	<u>Gross amounts not offset in the balance sheets</u>		<u>Net amount</u>
				<u>Financial instruments</u>	<u>Cash collateral received/pledged</u>	
<u>Liability Derivatives:</u>						
Zero cost collars	\$ 40	\$ —	\$ 40	\$ —	\$ —	\$ 40

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of accumulated other comprehensive income (“AOCI”) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative, representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness, are recognized in current earnings.

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The following table summarizes the impact of derivative instruments on the consolidated statement of operations for the years ended December 31, 2016 and 2015 (in thousands):

Derivatives in ASC 815 Cash Flow Hedging Relationships	Amount of Loss Recognized in AOCI on Derivatives (Effective Portion)		Location of Loss Reclassified from AOCI into Statement of Operations (Effective Portion)	Amount of Loss Reclassified from AOCI into Statement of Operations (Effective Portion)		Location of Loss Recognized in Statement of Operations on Derivative (Ineffective Portion)	Amount of Loss Recognized in Statement of Operations on Derivatives (Ineffective Portion)	
	2016	2015		2016	2015		2016	2015
	Zero cost collars	\$ (1,032)		\$ (3,748)	Net sales		\$ (637)	\$ (3,222)

As of December 31, 2016, the amount expected to be reclassified from accumulated other comprehensive income into loss within the next twelve months is \$436 thousand.

The Company set aside \$2,500 thousand and \$6,000 thousand of cash deposits to the counterparty, Nomura Financial Investment (Korea) Co., Ltd. (“NFIK”) as required for the zero cost collar contracts outstanding as of December 31, 2016 and 2015, respectively. These cash deposits are recorded as hedge collateral on the consolidated balance sheets.

The Company is required to deposit additional cash collateral with NFIK for any exposure in excess of \$500 thousand, and \$650 thousand was required as of December 31, 2016 and recorded as hedge collateral on the consolidated balance sheets. There was no such cash collateral required as of December 31, 2015. These outstanding zero cost collar contracts are subject to termination if the sum of qualified and unrestricted cash and cash equivalents held by the Company is less than \$30,000 thousand on the last day of a fiscal quarter.

9. Product Warranties

Changes in accrued warranty liabilities for the years ended December 31, 2016, 2015 and 2014 are as follows (in thousands):

	Year Ended December 31,		
	2016	2015	2014
Beginning balance	\$1,425	\$2,973	\$ 877
Change in provision	(426)	(648)	7,194
Usage	(527)	(758)	(4,923)
Translation adjustments	(6)	(142)	(175)
Ending balance	<u>\$ 466</u>	<u>\$1,425</u>	<u>\$ 2,973</u>

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10. Long-term Borrowings

Long-term borrowings as of December 31, 2016 and 2015 are as follows (in thousands):

	December 31,	
	2016	2015
6.625% senior notes due July 2021	\$225,000	\$225,000
Less: unamortized discount and debt issuance costs	(3,918)	(4,625)
Long-term borrowings, net of unamortized discount and debt issuance costs	<u>\$221,082</u>	<u>\$220,375</u>

On July 18, 2013, the Company issued a \$225,000,000 aggregate principal amount of the 2021 Notes at a price of 99.5%. Interest on the 2021 Notes accrues at a rate of 6.625% per annum, payable semi-annually on January 15 and July 15 of each year, beginning on January 15, 2014.

The Company can optionally redeem all or a part of the 2021 Notes according to the following schedule: (i) at any time prior to July 15, 2017, the Company may on any one or more occasions redeem all or a part of the 2021 Notes issued under that certain Indenture, dated as of July 18, 2013, by and between the Company and Wilmington Trust, National Association, as trustee (the "Trustee"), as supplemented by that certain First Supplemental Indenture, dated as of March 27, 2014 (collectively, the "Indenture"), related to the 2021 Notes at a redemption price equal to 100% of the principal amount of the notes redeemed, plus the applicable premium as of, and accrued and unpaid interest and special interest, if any, to the date of redemption and (ii) on or after July 15, 2017, the Company may on any one or more occasions redeem all or a part of the 2021 Notes, at a redemption price equal to 103.313%, 101.656% and 100% of the principal amount of the notes redeemed on or after July 15, 2017, 2018 and 2019, respectively, plus accrued and unpaid interest and special interest, if any, on the notes redeemed, to the applicable date of redemption.

The Indenture relating to the 2021 Notes contains covenants that limit the ability of the Company and its restricted subsidiaries to: (i) declare or pay any dividend or make any payment or distribution on account of or purchase or redeem the Company's capital stock or equity interests of the restricted subsidiaries; (ii) make any principal payment on, or redeem or repurchase, prior to any scheduled repayment or maturity, any subordinated indebtedness; (iii) make certain investments; (iv) incur additional indebtedness and issue certain types of capital stock; (v) create or incur any lien (except for permitted liens) that secures obligations under any indebtedness; (vi) merge with or into or sell all or substantially all of the Company's assets to other companies; (vii) enter into certain types of transactions with affiliates; (viii) guarantee the payment of any indebtedness; (ix) enter into sale-leaseback transactions; (x) enter into agreements that would restrict the ability of the restricted subsidiaries to make distributions with respect to their equity to the Company or other restricted subsidiaries, to make loans to the Company or other restricted subsidiaries or to transfer assets to the Company or other restricted subsidiaries; and (xi) designate unrestricted subsidiaries.

These covenants are subject to a number of exceptions and qualifications. Certain of these restrictive covenants will terminate if the 2021 Notes are rated investment grade at any time.

11. Accrued Severance Benefits

The majority of accrued severance benefits are for employees in the Company's Korean subsidiary. Pursuant to the Employee Retirement Benefit Security Act of Korea, eligible employees and executive officers

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with one or more years of service are entitled to severance benefits upon the termination of their employment based on their length of service and rate of pay. As of December 31, 2016, 98% of all employees of the Company were eligible for severance benefits.

Changes in accrued severance benefits are as follows (in thousands):

	<u>Year Ended December 31,</u>	
	<u>2016</u>	<u>2015</u>
Beginning balance	\$135,160	\$140,405
Provisions	14,432	15,289
Severance payments	(15,352)	(11,394)
Translation adjustments	(4,096)	(9,140)
	<u>130,144</u>	<u>135,160</u>
Less: Cumulative contributions to the National Pension Fund	(276)	(307)
Group severance insurance plan	(643)	(705)
Accrued severance benefits, net	<u>\$129,225</u>	<u>\$134,148</u>

The severance benefits funded through the Company's National Pension Fund and group severance insurance plan will be used exclusively for payment of severance benefits to eligible employees. These amounts have been deducted from the accrued severance benefit balance.

The Company is liable to pay the following future benefits to its non-executive employees upon their normal retirement age (in thousands):

	<u>Severance Benefit</u>
2017	\$ —
2018	—
2019	788
2020	1,495
2021	2,567
2022 – 2026	19,002

The above amounts were determined based on the non-executive employees' current salary rates and the number of service years that will be accumulated upon their retirement dates. These amounts do not include amounts that might be paid to non-executive employees that will cease working with the Company before their normal retirement ages.

The above table reflects an effect of a mandatory extension of retirement age in Korea from 57 to 60 under the Employment Promotion for the Aged Act effective from the beginning of 2016.

12. Common Stock

Common stock par value \$0.01 per share, was authorized in the amount of 150,000 thousand shares, of which 41,627 thousand shares were issued and 35,048 thousand shares were outstanding as of December 31, 2016.

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Changes in common stock for each period are as follows (in thousands):

	Year Ended December 31,			
	2016		2015	
	Shares	Amount	Shares	Amount
Common stock at the beginning of the period	34,568,942	\$ 411	34,056,468	\$ 406
Exercise of stock options	296,103	3	512,474	5
Settlement of restricted stock units	183,293	2	—	—
Total common stock outstanding at the end of the period	<u>35,048,338</u>	<u>\$ 416</u>	<u>34,568,942</u>	<u>\$ 411</u>

13. Equity Incentive Plans

The Company adopted its 2009 Common Unit Plan, or the 2009 Plan, effective December 8, 2009, which is administered by the Compensation Committee of the Company's Board of Directors (the "Compensation Committee"). The 2009 Plan terminated in connection with the Company's initial public offering in March 2011, and no additional options or other equity awards may be granted under the 2009 Plan. However, options granted under the 2009 Plan prior to its termination will remain outstanding until they are either exercised or expire. The Company adopted its 2011 Equity Incentive Plan, or the 2011 Plan, in March 2010. The Company amended and restated the 2011 Plan in February 2011, and the Company's stockholders approved the amendment in March 2011 to reflect that it became effective in 2011 in connection with the Company's initial public offering in March 2011. Awards may be granted under the 2011 Plan to the Company's employees, officers, directors, or consultants or those of any present or future parent or subsidiary corporation or other affiliated entity. While the Company may grant incentive stock options only to employees, the Company may grant nonstatutory stock options, stock appreciation rights, restricted stock purchase rights or bonuses, restricted stock units, performance shares, performance units and cash-based awards or other stock-based awards to any eligible participant, subject to terms and conditions determined by the Compensation Committee. The term of options shall not exceed ten years from the date of grant. Restricted stock purchase rights shall be exercisable within a period established by the Compensation Committee, which shall in no event exceed thirty days from the effective date of the grant. As of December 31, 2016, an aggregate maximum of 7,274 thousand shares were authorized and 557 thousand shares were reserved for all future grants.

Stock options and stock appreciation rights must have exercise prices at least equal to the fair market value of the stock at the time of their grant pursuant to the 2011 Plan. The requisite service period, or the period during which a grantee is required to provide service in exchange for option grants, coincides with the vesting period. Stock options typically vest over three years following grant.

Restricted stock units granted under the 2011 Plan represent a right to receive shares of the Company's common stock when the restricted stock unit vests. No monetary payment (other than applicable tax withholding) shall be required as a condition of receiving shares pursuant to a restricted stock unit, the consideration for which shall be services actually rendered to a participating company or for its benefit. Stock issued pursuant to any restricted stock unit may (but need not) be made subject to vesting conditions based upon the satisfaction of such service requirements, conditions, restrictions or performance criteria as shall be established by the Compensation Committee and set forth in the award agreement evidencing such award. Restricted stock units typically vest over three years following grant.

The purchase price for shares issuable under each restricted stock purchase right shall be established by the Compensation Committee in its discretion. No monetary payment (other than applicable tax withholding) shall

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be required as a condition of receiving shares pursuant to a restricted stock bonus, the consideration for which shall be services actually rendered to a participating company or for its benefit. Stock issued pursuant to any restricted stock award may (but need not) be made subject to vesting conditions based upon the satisfaction of such service requirements, conditions, restrictions or performance criteria as shall be established by the Compensation Committee and set forth in the award agreement evidencing such award. During any period in which stock acquired pursuant to a restricted stock award remain subject to vesting conditions, such stock may not be sold, exchanged, transferred, pledged, assigned or otherwise disposed of other than pursuant to an ownership change event or transfer by will or the laws of descent and distribution. The grantee shall have all of the rights of a stockholder of the Company holding stock, including the right to vote such stock and to receive all dividends and other distributions paid with respect to such stock; provided, however, that if so determined by the Compensation Committee and provided by the award agreement, such dividends and distributions shall be subject to the same vesting conditions as the stock subject to the restricted stock award with respect to which such dividends or distributions were paid. If a grantee's service terminates for any reason, whether voluntary or involuntary (including the grantee's death or disability), then (a) the Company (or its assignee) has the option to repurchase for the purchase price paid by the grantee any stock acquired by the grantee pursuant to a restricted stock purchase right which remain subject to vesting conditions as of the date of the grantee's termination of service and (b) the grantee shall forfeit to the Company any stock acquired by the grantee pursuant to a restricted stock bonus which remain subject to vesting conditions as of the date of the grantee's termination of service. The Company has the right to assign at any time any repurchase right it may have, whether or not such right is then exercisable, to one or more persons as may be selected by the Company.

The following summarizes restricted stock unit activities for the year ended December 31, 2016 and 2015. For the year ended December 31, 2014, there were no restricted stock unit activities.

	Number of Restricted Stock Units	Weighted Average Grant-Date Fair Value of Restricted Stock Units
Outstanding at January 1, 2015	—	\$ —
Granted	265,332	7.68
Vested	(129,962)	7.64
Outstanding at December 31, 2015	<u>135,370</u>	<u>\$ 7.72</u>
Granted	505,689	5.71
Vested	(101,240)	7.09
Forfeited	(21,339)	6.24
Outstanding at December 31, 2016	<u>518,480</u>	<u>\$ 5.94</u>

Total compensation expenses recorded for the restricted stock units were \$2,292 thousand and \$1,400 thousand for the years ended December 31, 2016 and 2015, respectively. As of December 31, 2016, there was \$1,030 thousand of total unrecognized compensation cost related to unvested restricted stock units, which is expected to be recognized over a weighted average future period of 0.6 of a year. Total fair value of restricted stock units vested were \$717 thousand and \$993 thousand for the years ended December 31, 2016 and 2015, respectively.

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The following summarizes stock option activities for the years ended December 31, 2016, 2015 and 2014. At the date of grant, all options had an exercise price not less than the fair value of common stock (aggregate intrinsic value in thousands):

	Number of Options	Weighted Average Exercise Price of Stock Options	Aggregate Intrinsic Value of Stock Options	Weighted Average Remaining Contractual Life of Stock Options
Outstanding at January 1, 2014	2,944,645	\$ 8.82	\$31,558	7.3 years
Granted	310,000	16.75	—	—
Forfeited	(31,905)	8.34	—	—
Exercised	(6,795)	7.03	—	—
Outstanding at December 31, 2014	<u>3,215,945</u>	\$ 9.60	\$39,615	6.6 years
Vested and expected to vest at December 31, 2014	3,204,967	9.58	39,610	6.6 years
Exercisable at December 31, 2014	<u>2,760,402</u>	8.70	39,187	6.3 years
Outstanding at January 1, 2015	3,215,945	\$ 9.60	\$39,615	6.6 years
Granted	802,193	7.92	—	—
Forfeited	(325,765)	9.88	—	—
Exercised	(512,474)	6.70	—	—
Outstanding at December 31, 2015	<u>3,179,899</u>	\$ 9.61	\$ —	6.7 years
Vested and expected to vest at December 31, 2015	3,155,828	9.62	—	6.7 years
Exercisable at December 31, 2015	<u>2,547,902</u>	9.63	—	6.0 years
Outstanding at January 1, 2016	3,179,899	\$ 9.61	\$ —	6.7 years
Granted	827,406	6.04	—	—
Forfeited	(282,537)	7.67	—	—
Exercised	(296,103)	5.85	—	—
Outstanding at December 31, 2016	<u>3,428,665</u>	\$ 9.23	\$ 525	6.7 years
Vested and expected to vest at December 31, 2016	3,389,763	9.27	508	6.7 years
Exercisable at December 31, 2016	<u>2,531,243</u>	10.11	236	5.9 years

Total compensation expenses recorded for the stock options were \$1,551 thousand, \$1,368 thousand and \$2,072 thousand for the years ended December 31, 2016, 2015 and 2014, respectively. As of December 31, 2016, there was \$697 thousand of total unrecognized compensation cost related to unvested stock options, which is expected to be recognized over a weighted average future period of 1.0 year. Total fair value of options vested was \$1,011 thousand, \$1,361 thousand and \$2,957 thousand for the years ended December 31, 2016, 2015 and 2014, respectively.

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The Company utilizes the Black-Scholes option-pricing model to measure the fair value of each option grant. The following summarizes the grant-date fair value of options granted for the years ended December 31, 2016, 2015 and 2014 and assumptions used in the Black-Scholes option-pricing model on a weighted average basis:

	Year Ended December 31,		
	2016	2015	2014
Grant-date fair value of option	\$ 1.54	\$ 1.67	\$ 4.10
Expected term	2.7 Years	2.4 Years	2.7 Years
Risk-free interest rate	1.0%	0.8%	0.7%
Expected volatility	36.8%	33.8%	36.7%
Expected dividends	—	—	—

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

	Year Ended December 31,					
	2016		2015		2014	
	Number	Weighted Average Grant-Date Fair Value	Number	Weighted Average Grant-Date Fair Value	Number	Weighted Average Grant-Date Fair Value
Unvested options at the beginning of the period	631,997	\$ 2.40	455,543	\$ 4.18	998,170	\$ 3.69
Granted options during the period	827,406	1.54	802,193	1.67	310,000	4.10
Vested options during the period	(446,570)	2.26	(532,682)	2.56	(819,818)	3.61
Forfeited options during the period	(85,934)	1.88	(92,959)	4.01	(31,905)	3.20
Exercised options during the period	(29,478)	1.24	(98)	3.08	(904)	3.16
Unvested options at the end of the period	<u>897,421</u>	\$ 1.72	<u>631,997</u>	\$ 2.40	<u>455,543</u>	\$ 4.18

14. Restructuring and Impairment Charges

2016 Restructuring Gain

During the first quarter of 2016, the Company completed all procedures necessary to sell all machineries in its closed 6-inch fab and recognized the \$7,785 thousand of restructuring gain from the related deposit of \$8,165 thousand received as of December 31, 2015, net of certain direct selling costs.

2014 Impairment Charges

The Company recognized \$10,269 thousand of impairment charges, which were incurred due to the planned closure of its six-inch fabrication facility. The impairment charges primarily resulted from \$8,239 thousand of impairment to building, \$1,763 thousand of impairment of machinery and equipment and \$267 thousand of impairment of other tangible assets.

15. Foreign Currency Gain (Loss), Net

Net foreign currency gain or loss includes non-cash translation gain or loss associated with intercompany balances. A substantial portion of the Company's net foreign currency gain or loss is non-cash translation gain or

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loss associated with intercompany long-term loans to our Korean subsidiary. The loans are denominated in U.S. dollars and are affected by changes in the exchange rate between the Korean won and the U.S. dollar. As of December 31, 2016, 2015 and 2014, the outstanding intercompany loan balances including accrued interest between the Korean subsidiary and the Dutch subsidiary were \$598,212 thousand, \$591,388 thousand and \$765,265 thousand, respectively. The Korean won to U.S. dollar exchange rates were 1,208.5:1, 1,172.0:1 and 1,099.2:1 using the first base rate as of December 31, 2016, 2015 and 2014, respectively, as quoted by the KEB Hana Bank.

16. Income Taxes

The Company's income tax expenses are composed of domestic and foreign income taxes depending on the relevant tax jurisdictions. Domestic income (loss) before taxes and income tax expenses are generated or incurred in the United States, where the parent company resides.

The components of income tax expense are as follows (in thousands):

	Year Ended December 31,		
	2016	2015	2014
Income (loss) before income taxes			
Domestic	\$ (1,738)	\$ 32,903	\$ (22,146)
Foreign	(24,133)	(132,857)	(93,563)
	<u>\$(25,871)</u>	<u>\$ (99,954)</u>	<u>\$(115,709)</u>
Current income taxes expense (benefit)			
Domestic	\$ (6)	\$ 25	\$ (3,300)
Foreign	3,386	(14,301)	3,312
Uncertain tax position liability (Domestic)	12	10	10
Uncertain tax position liability (Foreign)	339	(1,220)	(66)
	<u>3,731</u>	<u>(15,486)</u>	<u>(44)</u>
Deferred income taxes expense (benefit)			
Foreign	13	399	1,567
Total income tax expense (benefit)	<u>\$ 3,744</u>	<u>\$ (15,087)</u>	<u>\$ 1,523</u>
Effective tax rate	<u>(14.5)%</u>	<u>15.1%</u>	<u>(1.3)%</u>

The differences between the annual effective tax rates and the U.S. federal statutory rate of 35.0% primarily result from the non-income based withholding tax attributable to intercompany interest income of the Company's Dutch subsidiary, application of lower tax rates associated with certain earnings from the Company's operations outside the U.S., the parent Company's interest income, which is non-taxable for US tax purposes and the change of deferred tax assets and valuation allowance. The significant increase in income tax expense in 2016 is related to the reversal of withholding tax payable with respect to the waiver of the accrued interest on the loans granted to our Korean subsidiary by our Dutch subsidiary in 2015. Korean and Dutch subsidiaries agreed that our Dutch subsidiary waives and releases a partial amount of unpaid interest of \$174 million on its intercompany loans granted to our Korean subsidiary in order to decrease the cumulative losses of our Korean subsidiary to enhance the subsidiary's credit standing under the local banking rules. This transaction created a taxable income for our Korean subsidiary but did not result in a liability because of the utilization of expired loss carryforwards, which is deductible only against gains from cancellation of debt. The loss was not tax deductible for our Dutch

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subsidiary. This transaction also resulted in taxable loss for our Luxemburg subsidiary and this tax benefit was offset by an increase in the change in valuation allowance. In connection with the waiver of unpaid interest, the related withholding tax was reversed, resulting in the recognition of income tax benefit of \$17.8 million as of December 31, 2015.

The statutory income tax rate of the Company's Korean subsidiary was approximately 24.2% in 2016, 2015 and 2014.

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

	Year Ended December 31,		
	2016	2015	2014
Provision computed at statutory rate	\$ (9,055)	\$(34,984)	\$(40,498)
Difference in foreign tax rates	1,995	24,359	10,130
Permanent differences			
Derivative assets adjustment	(149)	(143)	(1,526)
TPECs, hybrid and other interest	(10,353)	(27,273)	(6,813)
Permanent impairment	—	(62,334)	—
Thin capitalization	2,120	2,457	—
Permanent foreign currency gain (loss)	(54)	11,575	(901)
Penalty	689	—	—
Non-deductible settlement	—	—	6,318
Non-deductible bad debt expense	—	89	—
Other permanent differences	50	(69)	(1,097)
Withholding tax	3,092	(14,457)	3,506
Foreign exchange rate adjustment	(1,838)	(8,954)	4,687
Change in valuation allowance	10,095	95,757	29,484
Tax credits claimed	(706)	(875)	(1,811)
Tax credits expired	1,578	—	—
Uncertain tax positions liability	351	(1,211)	(56)
Others	5,929	976	100
Income tax expense (benefit)	<u>\$ 3,744</u>	<u>\$(15,087)</u>	<u>\$ 1,523</u>

The permanent differences above include non-taxable TPECs and interest income from other financial instruments for US tax purposes and non-deductible interest expense according to the thin capitalization rule for Korean tax purposes. The permanent impairment of \$62,334 thousand in 2015 was related to the loss recognized by the Company's Luxemburg subsidiary in connection with the cancellation of debt as described above, which was not recognized for US tax purposes.

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A summary of the composition of net deferred income tax assets (liabilities) as of December 31, 2016, 2015 and 2014 are as follows (in thousands):

	Year-Ended December 31,		
	2016	2015	2014
Deferred tax assets			
Accounts receivables	\$ —	\$ —	\$ 1,076
Inventories	1,822	4,063	11,015
Derivative assets	110	10	—
Accrued expenses	2,803	12,939	9,030
Product warranties	113	345	719
Other reserves	372	474	457
Royalty income	—	—	147
Property, plant and equipment	13,314	13,986	15,914
Intangible assets	103	407	780
Accumulated severance benefits	31,478	31,038	30,413
Foreign currency translation losses	53,130	52,294	17,496
NOL carry-forwards	167,590	155,545	80,979
Tax credit	20,249	21,868	25,161
Other long-term payable	2,079	2,385	1,034
Others	4,885	1,974	1,990
Total deferred tax assets	298,048	297,328	196,211
Less: Valuation allowance	(281,473)	(279,867)	(194,739)
	<u>16,575</u>	<u>17,461</u>	<u>1,472</u>
Deferred tax liabilities			
Foreign currency translation gains	14,338	14,859	748
Prepaid expense	1,644	1,953	—
Others	410	478	147
Total deferred tax liabilities	16,392	17,290	895
Net deferred tax assets	<u>\$ 183</u>	<u>\$ 171</u>	<u>\$ 577</u>
Reported as			
Current deferred income tax assets	\$ 37	\$ 34	\$ 237
Non-current deferred income tax assets	\$ 193	\$ 238	\$ 415
Current deferred income tax liabilities	\$ (46)	\$ (98)	\$ (72)
Non-current deferred income tax liabilities	\$ (1)	\$ (3)	\$ (3)

The valuation allowances at December 31, 2016, 2015 and 2014 are primarily attributable to deferred tax assets for the uncertainty in taxable income at the Company's Korean subsidiary. The Company has recorded a full valuation allowance against the deferred tax assets, net of its deferred tax liabilities, and against certain foreign subsidiary's deferred tax assets pertaining to its related tax loss carry-forwards that are not anticipated to generate a tax benefit.

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Changes in valuation allowance for deferred tax assets for the years ended December 31, 2016, 2015 and 2014 are as follows (in thousands):

	Year Ended December 31,		
	2016	2015	2014
Beginning balance	\$279,867	\$194,739	\$178,729
Charged to expense	10,095	95,757	29,484
NOL/tax credit claimed/expired	(872)	(1,197)	(7,605)
Translation adjustments	(7,617)	(9,432)	(5,869)
Ending balance	<u>\$281,473</u>	<u>\$279,867</u>	<u>\$194,739</u>

The amount presented as “Charged to expense” primarily relates to the utilization of net operating loss and tax credit carry-forwards, or pre-tax losses for which there is no tax benefit.

The evaluation of the recoverability of the deferred tax asset and the need for a valuation allowance requires the Company to weigh all positive and negative evidence to reach a conclusion that it is more likely than not that all or some portion of the deferred tax asset will not be realized. The weight given to the evidence is commensurate with the extent to which it can be objectively verified. The more negative evidence that exists, the more positive evidence is necessary and the more difficult it is to support a conclusion that a valuation allowance is not needed. Realization of the future tax benefits related to the deferred tax assets is dependent on many factors, including the Company’s ability to generate future taxable income within the period during which the temporary differences reverse, the outlook for the economic environment in which the Company operates and the overall future industry outlook.

As of December 31, 2016, 2015 and 2014, the Company had net deferred tax assets of \$183 thousand, \$171 thousand and \$577 thousand, respectively, related to the Company’s Japanese subsidiary. As of December 31, 2016, 2015 and 2014, the Company recorded a valuation allowance of \$281,473 thousand, \$279,867 thousand and \$194,739 thousand on its deferred tax assets related to temporary differences, net operating loss carry-forwards and tax credits of domestic and foreign subsidiaries. The Company recorded these valuation allowances on deferred tax assets based on its assessment that the negative evidence of expected losses in early future years outweighs the positive evidence of historical income.

As of December 31, 2016, the Company had approximately \$684,851 thousand of net operating loss carry-forwards available to offset future taxable income, of which \$280,417 thousand is associated with the Company’s Korean subsidiary, which expires in part at various dates through 2026. The net operating loss of \$268,959 thousand associated with the Company’s Luxembourg subsidiary is mainly attributable to certain expenses incurred in connection with its shareholding in the Company’s Dutch subsidiary. Although this net operating loss amount is the carried forward indefinitely, it will be recaptured on future capital gain. The remaining net operating loss mainly relates to the US parent company and its domestic subsidiary, which expires in part at various dates through 2036. The Company utilized net operating loss of \$279 thousand, \$121 thousand and \$1,219 thousand, for the years ended December 31, 2016, 2015 and 2014, respectively. The Company also has Korean, Dutch and U.S. tax credit carry-forwards of approximately \$6,738 thousand, \$13,121 thousand and \$390 thousand, respectively, as of December 31, 2016. The Korean tax credits expire at various dates starting from 2017 to 2021, and the Dutch tax credits are carried forward to be used for an indefinite period of time.

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Uncertainty in Income Taxes

The Company and its subsidiaries file income tax returns in Korea, Japan, Taiwan, the U.S. and in various other jurisdictions. The Company is subject to income tax examinations by tax authorities of these jurisdictions for all open tax years.

As of December 31, 2016, 2015 and 2014, the Company recorded \$2,459 thousand, \$2,139 thousand and \$3,491 thousand of liabilities for unrecognized tax benefits, respectively. For the years ended December 31, 2016, 2015 and 2014, the Company recorded \$670 thousand, \$1,606 thousand and \$110 thousand of income tax benefits, respectively, by reversing liabilities due to the lapse of the applicable statute of limitations and incurred \$687 thousand, \$351 thousand and \$44 thousand of income tax expenses, respectively, for uncertain tax positions mainly resulting from imputed interest related to intercompany balances.

For the years ended December 31, 2016, 2015 and 2014, the Company recognized \$334 thousand, \$45 thousand, \$10 thousand of interest and penalties, respectively, related to unrecognized tax benefits as a component of income tax expense. Total interest and penalties accrued as of December 31, 2016, 2015 and 2014 were \$691 thousand, \$359 thousand and \$480 thousand, respectively.

The Company is currently unaware of any uncertain tax positions that could result in significant additional payments, accruals, or other material deviation in this estimate over the next 12 months.

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

	<u>Year Ended December 31,</u>		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Unrecognized tax benefits, balance at the beginning	\$13,330	\$14,969	\$11,865
Additions based on tax positions related to the current year	942	1,789	4,472
Additions for tax positions of prior years	317	—	47
Lapse of statute of limitations	(2,380)	(2,142)	(1,040)
Translation adjustments	(315)	(1,287)	(375)
Unrecognized tax benefits, balance at the ending	<u>\$11,894</u>	<u>\$13,330</u>	<u>\$14,969</u>

17. Geographic and Segment Information

The Company had previously reported its results of operations under one operating segment. During the second quarter of 2015, organizational changes were made to (i) realign the Company's businesses and organizational structure and (ii) streamline and consolidate certain business processes to achieve greater operating efficiencies. In furtherance of these objectives, the Company combined its Display Solutions and Power Solutions business lines into a new segment called Standard Products Group. Beginning in the second quarter of 2015, the Company began reporting its financial results in two operating segments: Semiconductor Manufacturing Services and Standard Products Group. During the third quarter of 2015, the Company changed the name of its Semiconductor Manufacturing Services segment to Foundry Services Group. The Company's chief operating decision maker is its Chief Executive Officer who allocates resources and assesses performance of the business and other activities based on gross profit. The two newly established operating segments were managed prospectively and all prior period amounts related to the segment change have been retrospectively reclassified to conform to the new presentation.

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The following sets forth information relating to the operating segments (in thousands):

	Year Ended December 31,		
	2016	2015	2014
Net Sales			
Foundry Services Group	\$273,961	\$290,775	\$360,549
Standard Products Group			
Display Solutions	281,967	207,480	199,861
Power Solutions	131,468	134,814	137,246
Total Standard Products Group	413,435	342,294	337,107
All other	573	643	562
Total net sales	<u>\$687,969</u>	<u>\$633,712</u>	<u>\$698,218</u>

	Year Ended December 31,		
	2016	2015	2014
Gross Profit			
Foundry Services Group	\$ 69,412	\$ 66,175	\$ 75,739
Standard Products Group	87,194	68,094	76,561
All other	(380)	595	562
Total gross profit	<u>\$156,226</u>	<u>\$134,864</u>	<u>\$152,862</u>

The following is a summary of net sales by geographic region, based on the location to which the products are billed (in thousands):

	Year Ended December 31,		
	2016	2015	2014
Korea	\$219,618	\$241,715	\$260,139
Asia Pacific (other than Korea)	391,875	316,562	324,248
U.S.A.	33,201	51,164	91,308
Europe	42,274	23,461	21,159
Others	1,001	810	1,364
Total	<u>\$687,969</u>	<u>\$633,712</u>	<u>\$698,218</u>

Net sales from the Company's top ten largest customers accounted for 64%, 64% and 61% for the years ended December 31, 2016, 2015 and 2014, respectively.

For the year ended December 31, 2016, the Company had two customers that represented 23.5% and 11.4% of its net sales, respectively. For the year ended December 31, 2015, the Company had two customers that represented 15.2% and 11.0% of its net sales, respectively. For the year ended December 31, 2014, the Company had two customers that represented 11.4% and 10.7% of its net sales, respectively.

96% of the Company's property, plant and equipment are located in Korea as of December 31, 2016.

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18. Commitments and Contingencies***Operating Agreements with SK Hynix***

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

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

Operating Leases

The Company leases land, office space and equipment under various operating lease agreements with various terms. Rental expenses were approximately \$8,898 thousand, \$8,194 thousand and \$9,421 thousand for the years ended December 31, 2016, 2015 and 2014, respectively.

As of December 31, 2016, the minimum aggregate rental payments due under non-cancelable lease contracts are as follows (in thousands):

2017	\$ 4,781
2018	2,786
2019	2,279
2020	2,200
2021	1,844
2022 and thereafter	23,547
	<u>\$37,437</u>

Securities Class Action Complaints

The Company recorded the \$23,500 thousand of the settlement obligation for the Class Action Litigation as accrued expenses in the consolidated balance sheets as of December 31, 2015 and as selling, general and administrative expenses in the consolidated statements of operations for the year ended December 31, 2015. For further information regarding the Class Action Litigation, see “Item 3. Legal Proceedings” included elsewhere in this Report. The Company recorded \$29,571 thousand of the proceeds from the insurers as other receivables in the consolidated balance sheets as of December 31, 2015 and as a deduction of the selling, general and administrative expenses in the consolidated statements of operations for the year ended December 31, 2015. The proceeds from the insurers of \$29,571 thousand were deposited into the Company’s escrow account during the first quarter of 2016 and the Company reclassified the \$29,571 thousand deposits recorded in other receivables into restricted cash. During the third quarter of 2016, the Company disbursed the aggregate settlement payment

MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(CONTINUED)
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of \$23,500 thousand after the court granted plaintiffs' renewed motion for preliminary approval of the settlement in July 2016. Upon the settlement payment, \$6,114 thousand of the insurance proceeds remained in the Company's escrow account. For subsequent treatment of the escrow amount, see "*Shareholder Derivative Complaints*" below.

SEC Enforcement Staff Review

In March 2014, the Company voluntarily reported to the SEC that the Company's Audit Committee (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 an independent investigation. Over the course of 2014 and the first two quarters of 2015, the Company voluntarily produced documents to the SEC regarding the various accounting issues identified during the independent investigation, and whether the Company's hiring of an accountant from the Company's independent registered public accounting firm impacted that accounting firm's independence. On July 22, 2014, the Staff of the SEC's Division of Enforcement obtained a Formal Order of Investigation. On March 12, 2015, the SEC issued a subpoena for documents to the Company in connection with its investigation. The Company will continue to cooperate with the SEC in this investigation, and has produced documents in response to the subpoena. At this time, the Company is unable to estimate any reasonably possible loss, or range of reasonably possible losses, with respect to the matters described above.

Shareholder Derivative Complaints

The settlement for the shareholder derivative actions described in "Item 3. Legal Proceedings" provided for an aggregate payment from the Company defendants' directors and officers insurance policies of \$3,000 thousand to be made to an escrow account, which will be payable to the Company (less certain deductions and applicable interest) once the settlement becomes effective. For further information regarding the shareholder derivative actions, see "Item 3. Legal Proceedings" included elsewhere in this Report. The \$3,000 thousand settlement payment was included in the insurance proceeds of \$29,571 thousand as discussed in "*Securities Class Action Complaints*" above.

On June 10, 2016, the court granted plaintiffs' motion for preliminary approval of the proposed settlement. On October 18, 2016, after a hearing held on October 14, 2016, the court entered its order and final judgment (the "Judgment") granting final approval of the proposed settlement and awarding plaintiffs' counsel \$750 thousand for attorneys' fees and litigation expenses. As a result, \$750 thousand was paid out of the Company's escrow account. The Judgment was not appealed within the applicable appeals period (on or before December 19, 2016). The settlement therefore became effective after the expiration of the appeals period and \$2,258 thousand was paid to the Company from the escrow account, previously recorded as restricted cash, in December 2016. The remaining restricted cash related to insurance proceeds of \$3,078 thousand was also released in December 2016.

19. Related Party Transactions

Stockholders

Funds affiliated with Avenue Capital Management II, L.P. ("Avenue") owned 11.7% of the Company's common stock issued and outstanding at December 31, 2016.

Funds affiliated with Engaged Capital, LLC. owned 11.0% of the Company's common stock issued and outstanding at December 31, 2016.

MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
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20. Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) consists of the following at December 31, 2016 and 2015, respectively (in thousands):

	Year Ended December 31,	
	2016	2015
Foreign currency translation adjustments	\$14,460	\$(190)
Derivative adjustments	(436)	(41)
Total	\$14,024	\$(231)

Changes in accumulated other comprehensive income (loss) for the years ended December 31, 2016, 2015 and 2014 are as follows (in thousands):

Year Ended December 31, 2016	Foreign currency translation adjustments	Derivative adjustments	Unrealized gain on investments	Total
Beginning balance	\$ (190)	\$ (41)	\$ —	\$ (231)
Other comprehensive income (loss) before reclassifications	14,650	(1,032)	—	13,618
Amounts reclassified from accumulated other comprehensive income	—	637	—	637
Net current-period other comprehensive income (loss)	14,650	(395)	—	14,255
Ending balance	<u>\$ 14,460</u>	<u>\$ (436)</u>	<u>\$ —</u>	<u>\$ 14,024</u>

Year Ended December 31, 2015	Foreign currency translation adjustments	Derivative adjustments	Unrealized gain on investments	Total
Beginning balance	\$ (35,551)	\$ 485	\$ —	\$(35,066)
Other comprehensive income (loss) before reclassifications	35,361	(3,748)	—	31,613
Amounts reclassified from accumulated other comprehensive income	—	3,222	—	3,222
Net current-period other comprehensive income (loss)	35,361	(526)	—	34,835
Ending balance	<u>\$ (190)</u>	<u>\$ (41)</u>	<u>\$ —</u>	<u>\$ (231)</u>

Year Ended December 31, 2014	Foreign currency translation adjustments	Derivative adjustments	Unrealized gain on investments	Total
Beginning balance	\$ (57,326)	\$ 6,587	\$ 681	\$(50,058)
Other comprehensive income (loss) before reclassifications	21,775	(69)	1,201	22,907
Amounts reclassified from accumulated other comprehensive income	—	(6,033)	(1,882)	(7,915)
Net current-period other comprehensive income (loss)	21,775	(6,102)	(681)	14,992
Ending balance	<u>\$ (35,551)</u>	<u>\$ 485</u>	<u>\$ —</u>	<u>\$(35,066)</u>

MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(CONTINUED)
(TABULAR DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)

21. Loss per Share

The following table illustrates the computation of basic and diluted loss per common share:

	Year Ended December 31,		
	2016	2015	2014
	(In thousands of US dollars, except share data)		
Net loss	\$ (29,615)	\$ (84,867)	\$ (117,232)
Weighted average common stock outstanding			
Basic/ Diluted	34,833,967	34,380,517	34,055,513
Loss per share			
Basic/ Diluted	<u>\$ (0.85)</u>	<u>\$ (2.47)</u>	<u>\$ (3.44)</u>

The following outstanding instruments were excluded from the computation of diluted loss per share, as they would have an anti-dilutive effect on the calculation:

	Year Ended December 31,		
	2016	2015	2014
Options	3,428,665	3,179,899	3,215,945
Restricted Stock Units	518,480	135,370	—

Rights Plan

On March 5, 2015, the Company entered into a Rights Agreement, dated as of March 5, 2015 between the Company and American Stock Transfer & Trust Company, LLC, as rights agent (as amended, the "Rights Agreement"), and the Board of Directors of the Company authorized and declared a dividend of one preferred stock purchase right (a "Right" and collectively, the "Rights") for each share of the Company's common stock, par value \$0.01 per share, outstanding at the close of business on March 16, 2015. The Company amended the Rights Agreement on March 2, 2016 and September 2, 2016. As amended, each Right, once exercisable, will entitle the registered holder to purchase from the Company one one-thousandth of a share of Series A Junior Participating Preferred Stock, par value \$0.01 per share, at a purchase price of \$12, subject to adjustment (the "Purchase Price"). The Rights are not presently exercisable and remain attached to the shares of common stock unless and until the occurrence of the earlier of the following (the "Distribution Date"): (i) the tenth day after the public announcement or disclosure by the Company or any person or group of affiliated or associated persons that any person or group of affiliated or associated persons has become an "Acquiring Person" by obtaining beneficial ownership of 12.5% (or 20% in the case of a "passive institutional investor," which is defined generally as any person who has reported beneficial ownership of shares of common stock on Schedule 13G under the Securities Exchange Act of 1934) or more of the Company's outstanding common stock, subject to certain exceptions; or (ii) the tenth business day (or such later date as the Company's Board of Directors may designate before a person or group of affiliated or associated persons becomes an Acquiring Person) after the commencement of, or first public announcement of the intent of any person to commence, a tender or exchange offer by any person or group of affiliated or associated persons, which would, if consummated, result in such person or group becoming an Acquiring Person. The Board of Directors may redeem all of the Rights for \$0.001 per Right at any time before any person or group of affiliated or associated persons becomes an Acquiring Person. In addition, at any time on or after any person or group of affiliated or associated persons becomes an Acquiring Person (but before any person or group of affiliated or associated persons becomes the owner of 50% or more of the Company's outstanding common stock), the Board of Directors may exchange all or part of the

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Rights (other than the Rights beneficially owned by the Acquiring Person and certain affiliated persons) for shares of common stock at an exchange ratio of one share of common stock per Right. The Rights will expire at the close of business on March 5, 2017, unless redeemed or exchanged prior to that time.

If any person or group of affiliated or associated persons becomes an Acquiring Person, then, after the Distribution Date, each Right (other than Rights beneficially owned by the Acquiring Person and certain affiliated persons or transferees thereof) will entitle the holder to purchase, for the Purchase Price, a number of shares of common stock having a market value of twice the Purchase Price. Alternatively, if, after any person or group of affiliated or associated persons becomes an Acquiring Person, (1) the Company is involved in a merger or other business combination in which the Company is not the surviving corporation or its common stock is changed into or exchanged for other securities or assets; or (2) the Company or one or more of its subsidiaries sell or otherwise transfer assets or earning power aggregating more than 50% of the assets or earning power of the Company and its subsidiaries, taken as a whole, then each Right will entitle the holder to purchase, for the Purchase Price, a number of shares of common stock of the other party to such business combination or sale (or in certain circumstances, an affiliate) having a market value of twice the Purchase Price.

22. Unaudited Quarterly Financial Results

The following tables present selected unaudited Consolidated Statements of Operations for each quarter of the years ended December 31, 2016 and 2015.

	Fiscal Year 2016			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands of US dollars, except share data)			
Net sales	\$ 148,105	\$ 167,106	\$ 192,296	\$ 180,462
Gross profit	34,249	36,749	39,139	46,089
Operating income (loss)	4,267	(7,377)	618	5,229
Net income (loss)	\$ 8,125	\$ (17,816)	\$ 29,866	\$ (49,790)
Earnings (loss) per share:				
Basic	\$ 0.23	\$ (0.51)	\$ 0.86	\$ (1.42)
Diluted	\$ 0.23	\$ (0.51)	\$ 0.85	\$ (1.42)
Weighted average common stock outstanding:				
Basic	34,698,904	34,716,081	34,849,805	35,068,330
Diluted	34,918,568	34,716,081	35,302,706	35,068,330
	Fiscal Year 2015			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands of US dollars, except share data)			
Net sales	\$ 164,885	\$ 162,015	\$ 154,382	\$ 152,430
Gross profit	34,977	35,286	34,699	29,902
Operating loss	(12,213)	(15,233)	(7,858)	(7,630)
Net income (loss)	\$ (20,029)	\$ (30,626)	\$ (57,066)	\$ 22,854
Earnings (loss) per share:				
Basic	\$ (0.59)	\$ (0.90)	\$ (1.65)	\$ 0.66
Diluted	\$ (0.59)	\$ (0.90)	\$ (1.65)	\$ 0.66
Weighted average common stock outstanding:				
Basic	34,056,468	34,092,402	34,664,246	34,698,777
Diluted	34,056,468	34,092,402	34,664,246	34,713,034

MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
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(TABULAR DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)

23. Subsequent Events

Derivative Contracts

On January 4, 2017, the Company and the counterparty, the Nomura Financial Investment (Korea) Co., Ltd., entered into derivative contracts of zero cost collars for the period from March 2017 to June 2017. The total notional amounts are \$82,000 thousand. In connection with the contracts, the Company paid \$3,800 thousand of cash deposits to the counterparty in January 2017.

Stock Repurchase

On January 11, 2017, the Company repurchased 1,795,444 shares of its common stock in the open market under the Company's stock repurchase programs, which was authorized by its board of directors on January 10, 2017, at an aggregate cost of \$11,401 thousand.

Issuance of Exchangeable Senior Notes

As disclosed in the Company's Form 8-K filed on January 17, 2017, MagnaChip Semiconductor S.A., the Company's Luxembourg subsidiary, closed an offering of 5.00% Exchangeable Senior Notes due 2021 with an \$86,250 thousand aggregate principal amount.

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

None.

Item 9A. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our periodic reports filed or submitted under the Securities Exchange Act of 1934, as amended (“Exchange Act”), is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer (“Principal Executive Officer”) and Chief Financial Officer (“Principal Financial Officer”), as appropriate, to allow for timely decisions regarding required disclosure.

Management of the Company, with the participation of our Principal Executive Officer and our Principal Financial Officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined under Rules 13a-15(e) and 15d-15(e) promulgated under the Exchange Act, as of December 31, 2016. Based on this evaluation, our Principal Executive Officer and our Principal Financial Officer have concluded that our disclosure controls and procedures were effective as of December 31, 2016.

(b) Management’s Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is a process designed under the supervision of our Principal Executive Officer and our Principal Financial Officer, and effected by our Board, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

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

Under the supervision and with the participation of our Principal Executive Officer and our Principal Financial Officer, we conducted an evaluation of the effectiveness of the Company’s internal control over financial reporting as of December 31, 2016, based on the criteria set forth in *Internal Control—Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Based on our assessment, we concluded that our internal control over financial reporting was effective as of December 31, 2016.

The effectiveness of the Company’s internal control over financial reporting as of December 31, 2016 has been audited by Samil PricewaterhouseCoopers, an independent registered public accounting firm, as stated in their report which appears in Item 8 of this Annual Report on Form 10-K.

(c) Remediation of Prior Year Material Weaknesses

Rule 12b-2 under the Exchange Act of 1934, and Rule 1-02 of Regulation S-X defines a “material weakness” as a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the registrant’s annual or interim financial statements will not be prevented or detected on a timely basis.

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As previously disclosed in Part II, Item 9A of the 2015 Form 10-K, we identified material weaknesses in our internal control over financial reporting as of December 31, 2015 as described below.

Period End Closing and Financial Reporting:

As of December 31, 2015, we did not operate effective period end closing and financial reporting controls over the completeness and accuracy of our non-routine manual journal entries. Specifically, controls over the analysis, documentation, review and approval of the non-routine manual journal entries were not operated effectively as designed to ensure the accuracy and completeness of the entries recorded.

During 2015, although we had implemented our internal controls in the period-end closing and financial reporting process to: (i) require appropriate internal and external evidence to be prepared for certain types of routine journal entries; (ii) improve the methods of reconciliation, confirmation, verification, observation, period end cut-off test, and analysis of each account in a timely manner; and (iii) assign appropriate roles and responsibilities for more comprehensive review procedures, including the involvement of finance and operational managers, in order to strengthen controls over the completeness and accuracy of manual journal entries, material weaknesses in our period end closing and financial reporting controls over non-routine manual journal entries described above were not remediated as of December 31, 2015, because controls over the completeness and accuracy of non-routine manual journal entries did not operate effectively for a sufficient period of time.

As of December 31, 2016, we concluded, through testing of the operating effectiveness of our implemented controls related to period-end closing and financial reporting, that the material weakness has been fully remediated.

Income Tax Accounting and Disclosures:

As of December 31, 2015, we did not operate an effective control over the completeness and accuracy of our income tax accounting and disclosures. Specifically, the control over the analysis and review of current income taxes was not operated effectively as designed to ensure the accuracy and completeness of the entries recorded.

During 2015, although we had implemented our procedures and controls over tax accounting and reporting by ensuring that we, on a timely basis: (i) review rules and regulations of tax jurisdictions relevant to each of our consolidated entities; (ii) review related accounting implications with respect to current income taxes, deferred income taxes, uncertain tax positions and related disclosures; and (iii) improve the competency of our accounting employees through ongoing training on income tax accounting, disclosure practices, and rules and regulations, material weakness in our control over income tax accounting and disclosures described above was not considered remediated as of December 31, 2015, because controls over the analysis and review of current income taxes did not operate effectively for a sufficient period of time.

As of December 31, 2016, we concluded, through testing of the operating effectiveness of our implemented controls related to income tax accounting and disclosures, that the material weakness has been fully remediated.

(d) Changes in Internal Control Over Financial Reporting

There were no changes in internal control over financial reporting during the quarter ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item relating to our executive officers is included in “Item 1. Business—Executive Officers of the Company.” The other information required by this item is incorporated by reference to our definitive proxy statement relating to our 2017 annual meeting of stockholders or will be included by amendment to this Report within 120 days after the end of the fiscal year to which this Report relates.

Item 11. Executive Compensation

The information required by this item is incorporated by reference to our definitive proxy statement relating to our 2017 annual meeting of stockholders or will be included by amendment to this Report within 120 days after the end of the fiscal year to which this Report relates.

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

The information required by this item is incorporated by reference to our definitive proxy statement relating to our 2017 annual meeting of stockholders or will be included by amendment to this Report within 120 days after the end of the fiscal year to which this Report relates.

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

The information required by this item is incorporated by reference to our definitive proxy statement relating to our 2017 annual meeting of stockholders or will be included by amendment to this Report within 120 days after the end of the fiscal year to which this Report relates.

Item 14. Principal Accounting Fees and Services.

The information required by this item is incorporated by reference to our definitive proxy statement relating to our 2017 annual meeting of stockholders or will be included by amendment to this Report within 120 days after the end of the fiscal year to which this Report relates.

PART IV

Item 15. Exhibits and Financial Statement Schedules

1. Financial Statements

The information required by this item is included in Item 8 of Part II of this Form 10-K.

2. Financial Statement Schedules

Financial Statement Schedules are omitted because of the absence of the conditions under which they are required or because the information required by such omitted schedules is set forth in the financial statements or the notes thereto.

3. Exhibits

<u>Exhibit No.</u>	<u>Exhibit Description</u>
2.1	Second Amended Chapter 11 Plan of Reorganization Proposed by the Official Committee of Unsecured Creditors of MagnaChip Semiconductor Finance Company, et al., dated as of September 24, 2009 (incorporated by reference to Exhibit 2.1 to our Amendment No. 1 to Registration Statement on Form S-1 filed on April 20, 2010 (Registration No. 333-165467)).
3.1	Certificate of Conversion of MagnaChip Semiconductor LLC (incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K filed on March 11, 2011).
3.2	Certificate of Incorporation of MagnaChip Semiconductor Corporation (incorporated by reference to Exhibit 3.2 to our Current Report on Form 8-K filed on March 11, 2011).
3.3	Amended and Restated Bylaws of MagnaChip Semiconductor Corporation (incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K filed on May 6, 2016).
3.4	Form of Plan of Conversion of MagnaChip Semiconductor LLC (incorporated by reference to Exhibit 3.6 to our Amendment No. 2 to Registration Statement on Form S-1 filed on May 11, 2010 (Registration No. 333-165467)).
3.5	Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock of MagnaChip Semiconductor Corporation, as filed with the Secretary of the State of Delaware on March 6, 2015 (incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K filed on March 6, 2015).
4.1	Rights Agreement, dated as of March 5, 2015, between MagnaChip Semiconductor Corporation and American Stock Transfer & Trust Company, LLC, which includes as Exhibits thereto the Form of Certificate of Designation, the Form of Right Certificate and the Summary of Terms attached thereto as Exhibits A, B and C, respectively (incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K filed on March 6, 2015).
4.1-1	Amendment No. 1 dated as of March 2, 2016, to the Rights Agreement between MagnaChip Semiconductor Corporation and American Stock Transfer & Trust Company, LLC, as Rights Agent (incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K filed on March 2, 2016).
4.1-2	Amendment No. 2 dated as of September 2, 2016, to the Rights Agreement between MagnaChip Semiconductor Corporation and American Stock Transfer & Trust Company, LLC, as Rights Agent, as previously amended by the Amendment No.1 to the Rights Agreement, dated as of March 2, 2016 (incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K filed on September 2, 2016).

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<u>Exhibit No.</u>	<u>Exhibit Description</u>
4.2	Registration Rights Agreement, dated as of November 9, 2009, by and among MagnaChip Semiconductor LLC and each of the securityholders named therein (incorporated by reference to Exhibit 4.1 to our Amendment No. 1 to Registration Statement on Form S-1 filed on April 20, 2010 (Registration No. 333-165467)).
4.3	Indenture, dated as of July 18, 2013, between MagnaChip Semiconductor Corporation, as issuer, and Wilmington Trust, National Association, as trustee (incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K filed on July 18, 2013).
4.4	First Supplemental Indenture, dated as of March 27, 2014, to Indenture, dated as of July 18, 2013, between MagnaChip Semiconductor Corporation, as issuer, and Wilmington Trust, National Association, as trustee (incorporated by reference to Exhibit 4.2 to our Current Report on Form 8-K filed on June 25, 2014).
4.5	Form of 6.625% Senior Notes due 2021 and notation of guarantee (included in Exhibit 4.3)
4.6#	Indenture, dated as of January 17, 2017, among MagnaChip Semiconductor S.A., as issuer, MagnaChip Semiconductor Corporation, as guarantor, and U.S. Bank National Association, as trustee.
4.7#	Form of 5.00% Exchangeable Senior Note due 2021 and note guarantee (included in Exhibit 4.6)
10.1	Intellectual Property License Agreement, dated as of October 6, 2004, by and between Hynix Semiconductor Inc. and MagnaChip Semiconductor, Ltd. (Korea) (incorporated by reference to Exhibit 10.2 to our Amendment No. 1 to Registration Statement on Form S-1 filed on April 20, 2010 (Registration No. 333-165467)).
10.2(1)	Land Lease and Easement Agreement, dated as of October 6, 2004, by and between Hynix Semiconductor Inc. and MagnaChip Semiconductor, Ltd. (Korea) (incorporated by reference to Exhibit 10.3 to our Amendment No. 1 to Registration Statement on Form S-1 filed on April 20, 2010 (Registration No. 333-165467)).
10.3	First Amendment to Land Lease and Easement Agreement, dated as of December 30, 2005, by and between Hynix Semiconductor Inc. and MagnaChip Semiconductor, Ltd. (Korea) (incorporated by reference to Exhibit 10.4 to our Amendment No. 1 to Registration Statement on Form S-1 filed on April 20, 2010 (Registration No. 333-165467)).
10.4(1)	General Service Supply Agreement, dated as of October 6, 2004, by and between Hynix Semiconductor Inc. and MagnaChip Semiconductor, Ltd. (Korea) (incorporated by reference to Exhibit 10.5 to Amendment No. 2 to MagnaChip Semiconductor S.A.'s and MagnaChip Semiconductor Finance Company's Registration Statement on Form S-4 (Registration No. 333-168516) filed on October 14, 2010).
10.5	First Amendment to the General Service Supply Agreement, dated as of December 30, 2005, by and between Hynix Semiconductor Inc. and MagnaChip Semiconductor, Ltd. (Korea) (incorporated by reference to Exhibit 10.6 to our Amendment No. 1 to Registration Statement on Form S-1 filed on April 20, 2010 (Registration No. 333-165467)).
10.6(1)	License Agreement (ModularBCD), dated as of March 18, 2005, by and between Advanced Analogic Technologies, Inc. and MagnaChip Semiconductor, Ltd. (Korea) (incorporated by reference to Exhibit 10.7 to our Registration Statement on Form S-1 filed on March 15, 2010 (Registration No. 333-165467)).

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<u>Exhibit No.</u>	<u>Exhibit Description</u>
10.7(1)	Amended & Restated License Agreement (TrenchDMOS), dated as of September 19, 2007, by and between Advanced Analogic Technologies, Inc. and MagnaChip Semiconductor, Ltd. (Korea) (incorporated by reference to Exhibit 10.8 to Amendment No. 2 to MagnaChip Semiconductor S.A.'s and MagnaChip Semiconductor Finance Company's Registration Statement on Form S-4 (Registration No. 333-168516) filed on October 14, 2010).
10.8(1)	Technology License Agreement, dated as of December 16, 1996, by and between Advanced RISC Machines Limited and MagnaChip Semiconductor, Ltd. (Korea) (successor in interest to LG Semicon Company Limited) (incorporated by reference to Exhibit 10.9 to our Registration Statement on Form S-1 filed on March 15, 2010 (Registration No. 333-165467)).
10.9(1)	Amendment to the Technology License Agreement, dated as of October 16, 2006, by and between ARM Limited and MagnaChip Semiconductor, Ltd. (Korea) (incorporated by reference to Exhibit 10.10 to Amendment No. 2 to MagnaChip Semiconductor S.A.'s and MagnaChip Semiconductor Finance Company's Registration Statement on Form S-4 (Registration No. 333-168516) filed on October 14, 2010).
10.10(1)	ARM7201TDSP Device License Agreement, dated as of August 26, 1997, by and between Advanced RISC Machines Limited and MagnaChip Semiconductor, Ltd. (Korea) (successor in interest to LG Semicon Company Limited) (incorporated by reference to Exhibit 10.11 to our Registration Statement on Form S-1 filed on March 15, 2010 (Registration No. 333-165467)).
10.11(1)	Technology License Agreement, dated as of October 5, 1995, by and between Advanced RISC Machines Limited and MagnaChip Semiconductor, Ltd. (Korea) (successor in interest to LG Semicon Company Limited) (incorporated by reference to Exhibit 10.12 to Amendment No. 2 to MagnaChip Semiconductor S.A.'s and MagnaChip Semiconductor Finance Company's Registration Statement on Form S-4 (Registration No. 333-168516) filed on October 14, 2010).
10.12(1)	Technology License Agreement, dated as of July 2001, by and between ARM Limited and MagnaChip Semiconductor, Ltd. (Korea) (successor in interest to Hynix Semiconductor Inc.) (incorporated by reference to Exhibit 10.13 to our Registration Statement on Form S-1 filed on March 15, 2010 (Registration No. 333-165467)).
10.13(1)	Technology License Agreement, dated as of August 22, 2001, by and between ARM Limited and MagnaChip Semiconductor, Ltd. (Korea) (successor in interest to Hynix Semiconductor Inc.) (incorporated by reference to Exhibit 10.14 to our Registration Statement on Form S-1 filed on March 15, 2010 (Registration No. 333-165467)).
10.14	Technology License Agreement, dated as of May 20, 2004, by and between ARM Limited and MagnaChip Semiconductor, Ltd. (Korea) (successor in interest to Hynix Semiconductor Inc.) (incorporated by reference to Exhibit 10.15 to our Registration Statement on Form S-1 filed on March 15, 2010 (Registration No. 333-165467)).
10.15(1)	Design Migration Agreement, dated as of May 1, 2007, by and between ARM Limited and MagnaChip Semiconductor, Ltd. (Korea) (incorporated by reference to Exhibit 10.16 to Amendment No. 2 to MagnaChip Semiconductor S.A.'s and MagnaChip Semiconductor Finance Company's Registration Statement on Form S-4 (Registration No. 333-168516) filed on October 14, 2010).
10.16	Basic Contract on Joint Development and Grant of License, dated as of November 10, 2006, by and between MagnaChip Semiconductor, Ltd. and Silicon Works Co., Ltd. (English translation) (incorporated by reference to Exhibit 10.17 to our Registration Statement on Form S-1 filed on March 15, 2010 (Registration No. 333-165467)).

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<u>Exhibit No.</u>	<u>Exhibit Description</u>
10.17	Amendment to Basic Contract on Joint Development and Grant of License, dated as of May 18, 2016, by and between MagnaChip Semiconductor, Ltd. and Silicon Works Co., Ltd. (English translation) (incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q filed on August 5, 2016).
10.18	Master Service Agreement, dated as of December 27, 2000 by and between Sharp Corporation and MagnaChip Semiconductor, Ltd. (Korea) (successor in interest to Hyundai Electronics Japan Co., Ltd) (English translation) (incorporated by reference to Exhibit 10.18 to our Amendment No. 1 to Registration Statement on Form S-1 filed on April 20, 2010 (Registration No. 333-165467)).
10.19*	MagnaChip Semiconductor LLC 2009 Common Unit Plan (incorporated by reference to Exhibit 10.20 to our Registration Statement on Form S-1 filed on March 15, 2010 (Registration No. 333-165467)).
10.20*	MagnaChip Semiconductor LLC 2009 Common Unit Plan form of Option Agreement (Non-U.S. Participants) (incorporated by reference to Exhibit 10.21 to our Registration Statement on Form S-1 filed on March 15, 2010 (Registration No. 333-165467)).
10.21*	MagnaChip Semiconductor LLC 2009 Common Unit Plan form of Option Agreement (U.S. Participants) (incorporated by reference to Exhibit 10.22 to our Registration Statement on Form S-1 filed on March 15, 2010 (Registration No. 333-165467)).
10.22*	MagnaChip Semiconductor LLC 2009 Common Unit Plan form of Restricted Unit Agreement (Non-U.S. Participants). Incorporated by reference to Exhibit 10.23 to our Registration Statement on Form S-1 filed on March 15, 2010 (Registration No. 333-165467).
10.23*	MagnaChip Semiconductor LLC 2009 Common Unit Plan form of Restricted Unit Agreement (U.S. Participants) (incorporated by reference to Exhibit 10.24 to our Registration Statement on Form S-1 filed on March 15, 2010 (Registration No. 333-165467)).
10.24*	MagnaChip Semiconductor Corporation 2011 Equity Incentive Plan (incorporated by reference to Exhibit 10.25 to our Amendment No 9 to the Registration Statement on Form S-1 filed on February 18, 2011 (Registration No. 333-165467)).
10.25*	MagnaChip Semiconductor Corporation 2011 Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.26 to our Amendment No 9 to the Registration Statement on Form S-1 filed on February 18, 2011 (Registration No. 333-165467)).
10.26*	Advisory Services and Separation Agreement, dated April 30, 2015, by and between MagnaChip Semiconductor, Ltd. (Korea) and Tae Young Hwang (incorporated by reference to Exhibit 10.28-1 to our Annual Report on Form 10-K filed on May 28, 2015).
10.27*	Advisory Services and Separation Agreement, effective May 28, 2015, by and between MagnaChip Semiconductor, Inc. and Brent Rowe (incorporated by reference to Exhibit 10.29-1 to our Annual Report on Form 10-K filed on May 28, 2015).
10.28*	Separation Agreement, effective June 30, 2015, by and between MagnaChip Semiconductor, Ltd. (Korea) and Heung Kyu Kim (incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q filed on August 7, 2015).
10.29*	Offer Letter, dated as of June 20, 2007, by and between MagnaChip Semiconductor, Ltd. (Korea) and Tae Jong Lee (incorporated by reference to Exhibit 10.42 to our Registration Statement on Form S-1 filed on March 15, 2010 (Registration No. 333-165467)).
10.29-1*	Severance Agreement, dated November 3, 2015, from MagnaChip Semiconductor, Ltd. (Korea) and MagnaChip Semiconductor Corporation to Tae Jong Lee (incorporated by reference to Exhibit 10.5 to our Quarterly Report on Form 10-Q filed on November 6, 2015).

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<u>Exhibit No.</u>	<u>Exhibit Description</u>
10.30*	MagnaChip Semiconductor Corporation Form of Indemnification Agreement with Directors and Officers (incorporated by reference to Exhibit 10.49 to our Registration Statement on Form S-1 filed on March 15, 2010 (Registration No. 333-165467)).
10.31*	Offer Letter, dated as of March 8, 2014, by and between MagnaChip Semiconductor, Ltd. (Korea) and Jonathan W. Kim (incorporated by reference to Exhibit 10.35 to our Annual Report on Form 10-K filed on February 12, 2015).
10.31-1*	Severance Agreement, dated November 3, 2015, from MagnaChip Semiconductor, Ltd. (Korea) and MagnaChip Semiconductor Corporation to Jonathan W. Kim (incorporated by reference to Exhibit 10.3 to our Quarterly Report on Form 10-Q filed on November 6, 2015).
10.32*	Offer Letter, dated as of April 15, 2013, by and between MagnaChip Semiconductor, Ltd. (Korea) and Young-Joon Kim (incorporated by reference to Exhibit 10.36 to our Annual Report on Form 10-K filed on February 12, 2015).
10.32-1*	Amendment of Offer Letter, dated July 27, 2015, from MagnaChip Semiconductor, Ltd. (Korea) to Young-Joon Kim (incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q filed on November 6, 2015).
10.32-2*	Severance Agreement, dated November 3, 2015, from MagnaChip Semiconductor, Ltd. (Korea) and MagnaChip Semiconductor Corporation to Young-Joon Kim (incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q filed on November 6, 2015).
10.33*	Offer Letter, dated as of September 27, 2013, by and between MagnaChip Semiconductor, Ltd. (Korea) and Theodore Kim (incorporated by reference to Exhibit 10.37 to our Annual Report on Form 10-K filed on February 12, 2015).
10.33-1*	Severance Agreement, dated November 3, 2015, from MagnaChip Semiconductor, Ltd. (Korea) and MagnaChip Semiconductor Corporation to Theodore S. Kim (incorporated by reference to Exhibit 10.4 to our Quarterly Report on Form 10-Q filed on November 6, 2015).
10.34*	Offer Letter, dated as of October 16, 2013, by and between MagnaChip Semiconductor, Ltd. (Korea) and Woung Moo Lee (incorporated by reference to Exhibit 10.36 to our Annual Report on Form 10-K filed on February 22, 2016).
10.34-1*	Severance Agreement, dated November 3, 2015, from MagnaChip Semiconductor, Ltd. (Korea) and MagnaChip Semiconductor Corporation to Woung Moo Lee (incorporated by reference to Exhibit 10.6 to our Quarterly Report on Form 10-Q filed on November 6, 2015).
10.35*	MagnaChip Semiconductor LLC Profit Sharing Plan as adopted on December 31, 2009 and amended on February 15, 2010 (incorporated by reference to Exhibit 10.54 to our Quarterly Report on Form 10-Q filed on August 5, 2011).
10.36*	MagnaChip Semiconductor Corporation 2011 Form of Stock Option Agreement (U.S. Participants) (incorporated by reference to Exhibit 10.55 to our Amendment No 9 to the Registration Statement on Form S-1 filed on February 18, 2011 (Registration No. 333-165467)).
10.37*	MagnaChip Semiconductor Corporation 2011 Form of Stock Option Agreement (Non-U.S. Participants) (incorporated by reference to Exhibit 10.56 to our Amendment No 9 to the Registration Statement on Form S-1 filed on February 18, 2011 (Registration No. 333-165467)).
10.38*	MagnaChip Semiconductor Corporation 2011 Form of Restricted Stock Units Agreement (U.S. Participants) (incorporated by reference to Exhibit 10.57 to our Amendment No 9 to the Registration Statement on Form S-1 filed on February 18, 2011 (Registration No. 333-165467)).
10.39*	MagnaChip Semiconductor Corporation 2011 Form of Restricted Stock Units Agreement (Non-U.S. Participants) (incorporated by reference to Exhibit 10.58 to our Amendment No 9 to the Registration Statement on Form S-1 filed on February 18, 2011 (Registration No. 333-165467)).

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<u>Exhibit No.</u>	<u>Exhibit Description</u>
10.40*	MagnaChip Semiconductor Corporation 2011 Form of Restricted Stock Agreement (U.S. Participants) (incorporated by reference to Exhibit 10.59 to our Amendment No 9 to the Registration Statement on Form S-1 filed on February 18, 2011 (Registration No. 333-165467)).
10.41*	MagnaChip Semiconductor Corporation 2011 Form of Restricted Stock Agreement (Non-U.S. Participants) (incorporated by reference to Exhibit 10.60 to our Amendment No 9 to the Registration Statement on Form S-1 filed on February 18, 2011 (Registration No. 333-165467)).
10.42*	MagnaChip Semiconductor Corporation 2011 Form of Restricted Stock Units Agreement (Nonemployee Director) (incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q filed on May 6, 2016).
10.43	Settlement Agreement, dated as of May 26, 2016, by and among MagnaChip Semiconductor Corporation, Engaged Capital, LLC, Engaged Capital Master Feeder I, LP, Engaged Capital Master Feeder II, LP, Engaged Capital I, LP, Engaged Capital I Offshore, Ltd., Engaged Capital II, LP, Engaged Capital II Offshore Ltd., Engaged Capital Holdings, LLC and Glenn W. Welling (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on May 27, 2016).
12.1#	Statement Regarding Computation of Ratio of Earnings to Fixed Charges
21.1	Subsidiaries of the Registrant (incorporated by reference to Exhibit 21.1 to our Annual Report on Form 10-K filed on February 12, 2015)
23.1#	Consent of Samil PricewaterhouseCoopers
31.1#	Certification of Chief Executive Officer required by Rule 13(a)-14(a), as adopted pursuant to § 302 of the Sarbanes-Oxley Act of 2002
31.2#	Certification of Chief Financial Officer required by Rule 13(a)-14(a), as adopted pursuant to § 302 of the Sarbanes-Oxley Act of 2002
32.1†	Certification of Chief Executive Officer required by 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002
32.2†	Certification of Chief Financial Officer required by 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002
101.INS#	XBRL Instance Document
101.SCH#	XBRL Taxonomy Extension Schema Document
101.CAL#	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF#	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB#	XBRL Taxonomy Extension Label Linkbase Document
101.PRE#	XBRL Taxonomy Extension Presentation Linkbase Document

Footnotes:

- (1) Certain portions of this document have been omitted pursuant to a grant of confidential treatment by the SEC.
* Management contract, compensatory plan or arrangement
Filed herewith
† Furnished herewith

Item 16. Form 10-K Summary

None.

SIGNATURES

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

MAGNACHIP SEMICONDUCTOR CORPORATION

By: /s/ Young-Joon Kim
Name: Young-Joon Kim
Title: Chief Executive Officer and Director
Date: February 21, 2017

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

	<u>Date</u>
<u>/s/ Young-Joon Kim</u> Young-Joon Kim, <i>Chief Executive Officer and Director (Principal Executive Officer)</i>	February 21, 2017
<u>/s/ Jonathan W. Kim</u> Jonathan W. Kim, <i>Chief Financial Officer, Executive Vice President and Chief Accounting Officer (Principal Financial and Accounting Officer)</i>	February 21, 2017
<u>/s/ Melvin Keating</u> Melvin Keating, <i>Director</i>	February 21, 2017
<u>/s/ Randal Klein</u> Randal Klein, <i>Director</i>	February 21, 2017
<u>/s/ Ilbok Lee</u> Ilbok Lee, <i>Director</i>	February 21, 2017
<u>/s/ Camillo Martino</u> Camillo Martino	February 21, 2017
<u>/s/ Gary Tanner</u> Gary Tanner, <i>Non-Executive Chairman of the Board of Directors</i>	February 21, 2017
<u>/s/ Nader Tavakoli</u> Nader Tavakoli, <i>Director</i>	February 21, 2017

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<u>Exhibit No.</u>	<u>Exhibit Description</u>
2.1	Second Amended Chapter 11 Plan of Reorganization Proposed by the Official Committee of Unsecured Creditors of MagnaChip Semiconductor Finance Company, et al., dated as of September 24, 2009 (incorporated by reference to Exhibit 2.1 to our Amendment No. 1 to Registration Statement on Form S-1 filed on April 20, 2010 (Registration No. 333-165467)).
3.1	Certificate of Conversion of MagnaChip Semiconductor LLC (incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K filed on March 11, 2011).
3.2	Certificate of Incorporation of MagnaChip Semiconductor Corporation (incorporated by reference to Exhibit 3.2 to our Current Report on Form 8-K filed on March 11, 2011).
3.3	Amended and Restated Bylaws of MagnaChip Semiconductor Corporation (incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K filed on May 6, 2016).
3.4	Form of Plan of Conversion of MagnaChip Semiconductor LLC (incorporated by reference to Exhibit 3.6 to our Amendment No. 2 to Registration Statement on Form S-1 filed on May 11, 2010 (Registration No. 333-165467)).
3.5	Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock of MagnaChip Semiconductor Corporation, as filed with the Secretary of the State of Delaware on March 6, 2015 (incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K filed on March 6, 2015).
4.1	Rights Agreement, dated as of March 5, 2015, between MagnaChip Semiconductor Corporation and American Stock Transfer & Trust Company, LLC, which includes as Exhibits thereto the Form of Certificate of Designation, the Form of Right Certificate and the Summary of Terms attached thereto as Exhibits A, B and C, respectively (incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K filed on March 6, 2015).
4.1-1	Amendment No. 1 dated as of March 2, 2016, to the Rights Agreement between MagnaChip Semiconductor Corporation and American Stock Transfer & Trust Company, LLC, as Rights Agent (incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K filed on March 2, 2016).
4.1-2	Amendment No. 2 dated as of September 2, 2016, to the Rights Agreement between MagnaChip Semiconductor Corporation and American Stock Transfer & Trust Company, LLC, as Rights Agent, as previously amended by the Amendment No.1 to the Rights Agreement, dated as of March 2, 2016 (incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K filed on September 2, 2016).
4.2	Registration Rights Agreement, dated as of November 9, 2009, by and among MagnaChip Semiconductor LLC and each of the securityholders named therein (incorporated by reference to Exhibit 4.1 to our Amendment No. 1 to Registration Statement on Form S-1 filed on April 20, 2010 (Registration No. 333-165467)).
4.3	Indenture, dated as of July 18, 2013, between MagnaChip Semiconductor Corporation, as issuer, and Wilmington Trust, National Association, as trustee (incorporated by reference to Exhibit 4.1 to our Current Report on Form 8-K filed on July 18, 2013).
4.4	First Supplemental Indenture, dated as of March 27, 2014, to Indenture, dated as of July 18, 2013, between MagnaChip Semiconductor Corporation, as issuer, and Wilmington Trust, National Association, as trustee (incorporated by reference to Exhibit 4.2 to our Current Report on Form 8-K filed on June 25, 2014).

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<u>Exhibit No.</u>	<u>Exhibit Description</u>
4.5	Form of 6.625% Senior Notes due 2021 and notation of guarantee (included in Exhibit 4.3)
4.6#	Indenture, dated as of January 17, 2017, among MagnaChip Semiconductor S.A., as issuer, MagnaChip Semiconductor Corporation, as guarantor, and U.S. Bank National Association, as trustee.
4.7#	Form of 5.00% Exchangeable Senior Note due 2021 and note guarantee (included in Exhibit 4.6)
10.1	Intellectual Property License Agreement, dated as of October 6, 2004, by and between Hynix Semiconductor Inc. and MagnaChip Semiconductor, Ltd. (Korea) (incorporated by reference to Exhibit 10.2 to our Amendment No. 1 to Registration Statement on Form S-1 filed on April 20, 2010 (Registration No. 333-165467)).
10.2(1)	Land Lease and Easement Agreement, dated as of October 6, 2004, by and between Hynix Semiconductor Inc. and MagnaChip Semiconductor, Ltd. (Korea) (incorporated by reference to Exhibit 10.3 to our Amendment No. 1 to Registration Statement on Form S-1 filed on April 20, 2010 (Registration No. 333-165467)).
10.3	First Amendment to Land Lease and Easement Agreement, dated as of December 30, 2005, by and between Hynix Semiconductor Inc. and MagnaChip Semiconductor, Ltd. (Korea) (incorporated by reference to Exhibit 10.4 to our Amendment No. 1 to Registration Statement on Form S-1 filed on April 20, 2010 (Registration No. 333-165467)).
10.4(1)	General Service Supply Agreement, dated as of October 6, 2004, by and between Hynix Semiconductor Inc. and MagnaChip Semiconductor, Ltd. (Korea) (incorporated by reference to Exhibit 10.5 to Amendment No. 2 to MagnaChip Semiconductor S.A.'s and MagnaChip Semiconductor Finance Company's Registration Statement on Form S-4 (Registration No. 333-168516) filed on October 14, 2010).
10.5	First Amendment to the General Service Supply Agreement, dated as of December 30, 2005, by and between Hynix Semiconductor Inc. and MagnaChip Semiconductor, Ltd. (Korea) (incorporated by reference to Exhibit 10.6 to our Amendment No. 1 to Registration Statement on Form S-1 filed on April 20, 2010 (Registration No. 333-165467)).
10.6(1)	License Agreement (ModularBCD), dated as of March 18, 2005, by and between Advanced Analogic Technologies, Inc. and MagnaChip Semiconductor, Ltd. (Korea) (incorporated by reference to Exhibit 10.7 to our Registration Statement on Form S-1 filed on March 15, 2010 (Registration No. 333-165467)).
10.7(1)	Amended & Restated License Agreement (TrenchDMOS), dated as of September 19, 2007, by and between Advanced Analogic Technologies, Inc. and MagnaChip Semiconductor, Ltd. (Korea) (incorporated by reference to Exhibit 10.8 to Amendment No. 2 to MagnaChip Semiconductor S.A.'s and MagnaChip Semiconductor Finance Company's Registration Statement on Form S-4 (Registration No. 333-168516) filed on October 14, 2010).
10.8(1)	Technology License Agreement, dated as of December 16, 1996, by and between Advanced RISC Machines Limited and MagnaChip Semiconductor, Ltd. (Korea) (successor in interest to LG Semicon Company Limited) (incorporated by reference to Exhibit 10.9 to our Registration Statement on Form S-1 filed on March 15, 2010 (Registration No. 333-165467)).
10.9(1)	Amendment to the Technology License Agreement, dated as of October 16, 2006, by and between ARM Limited and MagnaChip Semiconductor, Ltd. (Korea) (incorporated by reference to Exhibit 10.10 to Amendment No. 2 to MagnaChip Semiconductor S.A.'s and MagnaChip Semiconductor Finance Company's Registration Statement on Form S-4 (Registration No. 333-168516) filed on October 14, 2010).

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<u>Exhibit No.</u>	<u>Exhibit Description</u>
10.10(1)	ARM7201TDSP Device License Agreement, dated as of August 26, 1997, by and between Advanced RISC Machines Limited and MagnaChip Semiconductor, Ltd. (Korea) (successor in interest to LG Semicon Company Limited) (incorporated by reference to Exhibit 10.11 to our Registration Statement on Form S-1 filed on March 15, 2010 (Registration No. 333-165467)).
10.11(1)	Technology License Agreement, dated as of October 5, 1995, by and between Advanced RISC Machines Limited and MagnaChip Semiconductor, Ltd. (Korea) (successor in interest to LG Semicon Company Limited) (incorporated by reference to Exhibit 10.12 to Amendment No. 2 to MagnaChip Semiconductor S.A.'s and MagnaChip Semiconductor Finance Company's Registration Statement on Form S-4 (Registration No. 333-168516) filed on October 14, 2010).
10.12(1)	Technology License Agreement, dated as of July 2001, by and between ARM Limited and MagnaChip Semiconductor, Ltd. (Korea) (successor in interest to Hynix Semiconductor Inc.) (incorporated by reference to Exhibit 10.13 to our Registration Statement on Form S-1 filed on March 15, 2010 (Registration No. 333-165467)).
10.13(1)	Technology License Agreement, dated as of August 22, 2001, by and between ARM Limited and MagnaChip Semiconductor, Ltd. (Korea) (successor in interest to Hynix Semiconductor Inc.) (incorporated by reference to Exhibit 10.14 to our Registration Statement on Form S-1 filed on March 15, 2010 (Registration No. 333-165467)).
10.14	Technology License Agreement, dated as of May 20, 2004, by and between ARM Limited and MagnaChip Semiconductor, Ltd. (Korea) (successor in interest to Hynix Semiconductor Inc.) (incorporated by reference to Exhibit 10.15 to our Registration Statement on Form S-1 filed on March 15, 2010 (Registration No. 333-165467)).
10.15(1)	Design Migration Agreement, dated as of May 1, 2007, by and between ARM Limited and MagnaChip Semiconductor, Ltd. (Korea) (incorporated by reference to Exhibit 10.16 to Amendment No. 2 to MagnaChip Semiconductor S.A.'s and MagnaChip Semiconductor Finance Company's Registration Statement on Form S-4 (Registration No. 333-168516) filed on October 14, 2010).
10.16	Basic Contract on Joint Development and Grant of License, dated as of November 10, 2006, by and between MagnaChip Semiconductor, Ltd. and Silicon Works Co., Ltd. (English translation) (incorporated by reference to Exhibit 10.17 to our Registration Statement on Form S-1 filed on March 15, 2010 (Registration No. 333-165467)).
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10.19*	MagnaChip Semiconductor LLC 2009 Common Unit Plan (incorporated by reference to Exhibit 10.20 to our Registration Statement on Form S-1 filed on March 15, 2010 (Registration No. 333-165467)).
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<u>Exhibit No.</u>	<u>Exhibit Description</u>
10.22*	MagnaChip Semiconductor LLC 2009 Common Unit Plan form of Restricted Unit Agreement (Non-U.S. Participants). Incorporated by reference to Exhibit 10.23 to our Registration Statement on Form S-1 filed on March 15, 2010 (Registration No. 333-165467).
10.23*	MagnaChip Semiconductor LLC 2009 Common Unit Plan form of Restricted Unit Agreement (U.S. Participants) (incorporated by reference to Exhibit 10.24 to our Registration Statement on Form S-1 filed on March 15, 2010 (Registration No. 333-165467)).
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10.28*	Separation Agreement, effective June 30, 2015, by and between MagnaChip Semiconductor, Ltd. (Korea) and Heung Kyu Kim (incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q filed on August 7, 2015).
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10.32-1*	Amendment of Offer Letter, dated July 27, 2015, from MagnaChip Semiconductor, Ltd. (Korea) to Young-Joon Kim (incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q filed on November 6, 2015).
10.32-2*	Severance Agreement, dated November 3, 2015, from MagnaChip Semiconductor, Ltd. (Korea) and MagnaChip Semiconductor Corporation to Young-Joon Kim (incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q filed on November 6, 2015).

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10.33*	Offer Letter, dated as of September 27, 2013, by and between MagnaChip Semiconductor, Ltd. (Korea) and Theodore Kim (incorporated by reference to Exhibit 10.37 to our Annual Report on Form 10-K filed on February 12, 2015).
10.33-1*	Severance Agreement, dated November 3, 2015, from MagnaChip Semiconductor, Ltd. (Korea) and MagnaChip Semiconductor Corporation to Theodore S. Kim (incorporated by reference to Exhibit 10.4 to our Quarterly Report on Form 10-Q filed on November 6, 2015).
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10.40*	MagnaChip Semiconductor Corporation 2011 Form of Restricted Stock Agreement (U.S. Participants) (incorporated by reference to Exhibit 10.59 to our Amendment No 9 to the Registration Statement on Form S-1 filed on February 18, 2011 (Registration No. 333-165467)).
10.41*	MagnaChip Semiconductor Corporation 2011 Form of Restricted Stock Agreement (Non-U.S. Participants) (incorporated by reference to Exhibit 10.60 to our Amendment No 9 to the Registration Statement on Form S-1 filed on February 18, 2011 (Registration No. 333-165467)).
10.42*	MagnaChip Semiconductor Corporation 2011 Form of Restricted Stock Units Agreement (Nonemployee Director) (incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q filed on May 6, 2016).
10.43	Settlement Agreement, dated as of May 26, 2016, by and among MagnaChip Semiconductor Corporation, Engaged Capital, LLC, Engaged Capital Master Feeder I, LP, Engaged Capital Master Feeder II, LP, Engaged Capital I, LP, Engaged Capital I Offshore, Ltd., Engaged Capital II, LP, Engaged Capital II Offshore Ltd., Engaged Capital Holdings, LLC and Glenn W. Welling (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on May 27, 2016).
12.1#	Statement Regarding Computation of Ratio of Earnings to Fixed Charges
21.1	Subsidiaries of the Registrant (incorporated by reference to Exhibit 21.1 to our Annual Report on Form 10-K filed on February 12, 2015)

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<u>Exhibit No.</u>	<u>Exhibit Description</u>
23.1#	Consent of Samil PricewaterhouseCoopers
31.1#	Certification of Chief Executive Officer required by Rule 13(a)-14(a), as adopted pursuant to § 302 of the Sarbanes-Oxley Act of 2002
31.2#	Certification of Chief Financial Officer required by Rule 13(a)-14(a), as adopted pursuant to § 302 of the Sarbanes-Oxley Act of 2002
32.1†	Certification of Chief Executive Officer required by 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002
32.2†	Certification of Chief Financial Officer required by 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002
101.INS#	XBRL Instance Document
101.SCH#	XBRL Taxonomy Extension Schema Document
101.CAL#	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF#	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB#	XBRL Taxonomy Extension Label Linkbase Document
101.PRE#	XBRL Taxonomy Extension Presentation Linkbase Document

Footnotes:

(1) Certain portions of this document have been omitted pursuant to a grant of confidential treatment by the SEC.

* Management contract, compensatory plan or arrangement

Filed herewith

† Furnished herewith

MAGNACHIP SEMICONDUCTOR S.A.

as the Company

MAGNACHIP SEMICONDUCTOR CORPORATION

as the Parent

AND

U.S. BANK NATIONAL ASSOCIATION,

as Trustee

INDENTURE

Dated as of January 17, 2017

5.00% Exchangeable Senior Notes due 2021

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EXHIBIT

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INDENTURE, dated as of January 17, 2017, among MAGNACHIP SEMICONDUCTOR S.A., a Luxembourg public company limited by shares (*société anonyme*) having its registered address at 1, allée Scheffer, L-2520 Luxembourg, Grand Duchy of Luxembourg and registered with the *Registre de Commerce et des Sociétés, Luxembourg* under number B 97483, as issuer (the “**Company**,” as more fully set forth in Section 1.01), MAGNACHIP SEMICONDUCTOR CORPORATION, a Delaware corporation, as guarantor (the “**Parent**”), and U.S. BANK NATIONAL ASSOCIATION, a national banking association, as trustee (the “**Trustee**,” as more fully set forth in Section 1.01).

WHEREAS, for its lawful corporate purposes, the Company has duly authorized the issuance of its 5.00% Exchangeable Senior Notes due 2021 (the “**Notes**”), initially in an aggregate principal amount limited to \$86,250,000 (subject to Section 2.10), and in order to provide the terms and conditions upon which the Notes are to be authenticated, issued and delivered, the Company has duly authorized the execution and delivery of this Indenture; and

WHEREAS, the Form of Note, the certificate of authentication to be borne by each Note, the Form of Notice of Exchange, the Form of Fundamental Change Repurchase Notice and the Form of Assignment and Transfer to be borne by the Notes are to be substantially in the forms hereinafter provided; and

WHEREAS, all acts and things necessary to make the Notes, when executed by the Company and authenticated and delivered by the Trustee or a duly authorized authenticating agent, as in this Indenture provided, the valid, binding and legal obligations of the Company, and this Indenture a valid agreement according to its terms, have been done and performed, and the execution of this Indenture and the issuance hereunder of the Notes have in all respects been duly authorized.

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

That in order to declare the terms and conditions upon which the Notes are, and are to be, authenticated, issued and delivered, and in consideration of the premises and of the purchase and acceptance of the Notes by the Holders thereof, the Company covenants and agrees with the Trustee for the equal and proportionate benefit of the respective Holders from time to time of the Notes (except as otherwise provided below), as follows:

ARTICLE 1
DEFINITIONS

Section 1.01. *Definitions.* The terms defined in this Section 1.01 (except as herein otherwise expressly provided or unless the context otherwise requires) for all purposes of this Indenture and of any indenture supplemental hereto shall have the respective meanings specified in this Section 1.01. The words “herein,” “hereof,” “hereunder” and words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision. Unless otherwise specified, each reference to an Article, Section or other subdivision refers to such Article, Section or other subdivision of this Indenture. The terms defined in this Article include the plural as well as the singular.

“**Acquired Debt**” means, with respect to any specified Person:

(1) Indebtedness of any other Person existing at the time such other Person is merged with or into or became a Subsidiary of such specified Person, whether or not such Indebtedness is incurred in connection with, or in contemplation of, such other Person merging with or into, or becoming a Restricted Subsidiary of, such specified Person; and

(2) Indebtedness secured by a Lien encumbering any asset acquired by such specified Person.

“**Additional Interest**” means all amounts, if any, payable pursuant to Section 4.06(d), Section 4.06(f) and Section 6.03, as applicable.

“**Additional Shares**” shall have the meaning specified in Section 14.03(a).

“**Affiliate**” of any specified person means any other person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified person. For purposes of this definition, “control,” as used with respect to any person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such person, whether through the ownership of voting securities, by agreement or otherwise. For purposes of this definition, the terms “controlling,” “controlled by” and “under common control with” have correlative meanings.

“**Aggregated Person**” shall have the meaning specified in Section 14.11.

“**Asset Sale**” shall have the meaning specified in the Existing Indenture.

“**Authorized Agent**” shall have the meaning specified in Section 18.04.

“**Bankruptcy Law**” means Title 11 of the U.S. Code or any similar federal, state or foreign law for the relief of debtors.

“**Benefited Party**” shall have the meaning specified in Section 13.01.

“**Board of Directors**” means the board of directors of the Parent or a committee of such board duly authorized to act for it hereunder

“**Board Resolution**” means a copy of a resolution certified by the Secretary or an Assistant Secretary of the Parent to have been duly adopted by the Board of Directors, and to be in full force and effect on the date of such certification, and delivered to the Trustee.

“**Business Day**” means, with respect to any Note, any day other than a Saturday, a Sunday or a day on which the Federal Reserve Bank of New York is authorized or required by law or executive order to close or be closed.

“**Capital Lease Obligation**” means, at the time any determination is to be made, the amount of the liability in respect of a capital lease that would at that time be required to be capitalized on a balance sheet prepared in accordance with GAAP, and the Stated Maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be prepaid by the lessee without payment of a penalty.

“Capital Stock” means:

- (1) in the case of a corporation, corporate stock;
- (2) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock;
- (3) in the case of a partnership or limited liability company, partnership interests (whether general or limited) or membership interests; and
- (4) any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person, but excluding from all of the foregoing any debt securities convertible into Capital Stock, whether or not such debt securities include any right of participation with Capital Stock.

“Cash Equivalent” means:

- (1) United States dollars or currency of any other sovereign nation in which the Parent or any of its Restricted Subsidiaries conduct business;
- (2) securities issued or directly and fully guaranteed or insured by the United States government, South Korean government, governments of EU member states with a S&P sovereign credit rating of A or better, the Japanese government, the Taiwan government, the Hong Kong government, or any agency or instrumentality of any such government (*provided* that the full faith and credit of any such government is pledged in support of those securities) having maturities of not more than one year from the date of acquisition;
- (3) United States dollar denominated and South Korean Won denominated certificates of deposit, eurodollar time deposits and similar instruments in the United States, Hong Kong, Taiwan and Japan with maturities of one year or less from the date of acquisition, bankers’ acceptances with maturities not exceeding one year and overnight bank deposits, in each case, with any domestic commercial bank having capital and surplus in excess of \$500.0 million and a Thomson Bank Watch Rating of “B” or better or a comparable rating by a comparable rating agency in the relevant jurisdiction if such Thomson Bank Watch Rating is not available;
- (4) repurchase obligations with a term of not more than seven days for underlying securities of the types described in clauses (2) and (3) above entered into with any financial institution meeting the qualifications specified in clause (3) above;
- (5) commercial paper having one of the two highest ratings obtainable from Moody’s or S&P and, in each case, maturing within one year after the date of acquisition;

(6) money market funds at least 95% of the assets of which constitute Cash Equivalents of the kinds described in clauses (1) through (5) of this definition; and

(7) in the case of a Foreign Subsidiary, (a) currency of the countries in which such Foreign Subsidiary conducts business, and (b) investments of the type and maturity described in clause (3) above of foreign obligors, which investments or obligors have the rating described in such clause.

“**close of business**” means 5:00 p.m. (New York City time).

“**Commission**” means the U.S. Securities and Exchange Commission.

“**Common Equity**” of any Person means Capital Stock of such Person that is generally entitled (a) to vote in the election of directors of such Person or (b) if such Person is not a corporation, to vote or otherwise participate in the selection of the governing body, partners, managers or others that will control the management or policies of such Person.

“**Common Stock**” means the common stock of the Parent, par value \$0.01 per share, at the date of this Indenture, subject to Section 14.07.

“**Company**” shall have the meaning specified in the first paragraph of this Indenture, and subject to the provisions of Article 11, shall include its successors and assigns.

“**Company Order**” means a written order of the Company, signed by an Officer of the Company, who shall be the Parent’s Chief Executive Officer, President, Executive or Senior Vice President or any Vice President (whether or not designated by a number or numbers or word or words added before or after the title “Vice President”).

“**Consolidated EBITDA**” means, with respect to any specified Person for any period, the net income (loss) of such Person and its Restricted Subsidiaries for such period, on a consolidated basis (excluding the net income (loss) of any Unrestricted Subsidiary of such Person), determined in accordance with GAAP and without any reduction in respect of preferred stock dividends, *plus*, without duplication:

- (1) all depreciation and amortization expenses (including amortization of intangibles); *plus*
- (2) the Fixed Charges of such Person and its Restricted Subsidiaries for such period, to the extent that such Fixed Charges were deducted in computing such net income; *plus*
- (3) provision for taxes based on income or profits of such Person and its Restricted Subsidiaries for such period, to the extent that such provision for taxes was deducted in computing such net income; *plus*
- (4) all restructuring and impairment charges or expenses of such Person and its Restricted Subsidiaries for such period, to the extent the same were deducted in computing such net income; *plus*

(5) any increase to cost of goods sold of such Person and its Restricted Subsidiaries for such period arising out of “**fresh start**” accounting treatment; *plus*

(6) all non-cash compensation expense of such Person and its Restricted Subsidiaries for such period to the extent that such expenses were deducted in computing such net income; *plus*

(7) any foreign currency translation losses (including losses related to currency remeasurements of Indebtedness) of such Person and its Restricted Subsidiaries for such period, to the extent that such losses were taken into account in computing such net income; *plus*

(8) non-cash losses attributable to movement in the mark-to-market valuation of Hedging Obligations pursuant to Financial Accounting Standards Board Statement No. 133; *plus*

(9) any fees and expenses incurred during such period, or any amortization thereof for such period, in connection with any acquisition, Investment, Asset Sale, issuance or repayment of Indebtedness, issuance or sale of Equity Interests, refinancing transaction or amendment or modification of any debt instrument, whether or not such transaction was consummated, to the extent the same were deducted in computing such net income;

(10) all unusual and non-recurring charges or expenses of such Person and its Restricted Subsidiaries for such period, to the extent the same were deducted in computing such net income; *plus*

(11) one-time incentive payments in connection with the Parent’s initial public offering in 2011; *plus*

(12) financial statement restatement related charges and expenses; *plus*

(13) any loss on early extinguishment of Indebtedness, including the Notes and Existing Notes, to the extent the same was deducted in computing such net income; *minus*

(14) any foreign currency translation gains (including gains related to currency remeasurments of Indebtedness) of such Person and its Restricted Subsidiaries for such period, to the extent that such gains were taken into account in computing such net income; *minus*

(15) non-cash gains attributable to movement in the mark-to-market valuation of Hedging Obligations pursuant to Financial Accounting Standards Board Statement No. 133,

in each case, on a consolidated basis and determined in accordance with GAAP.

“**Consolidated Net Income**” means, with respect to any specified Person for any period, the aggregate of the net income (loss) of such Person and its Restricted Subsidiaries for such period, on a consolidated basis (excluding the net income (loss) of any Unrestricted Subsidiary of such Person), determined in accordance with GAAP and without any reduction in respect of preferred stock dividends; *provided* that:

(1) all extraordinary gains (and losses) and all gains (and losses) realized in connection with any Asset Sale or the disposition of securities or the early extinguishment of Indebtedness, together with any related provision for taxes on any such gain, will be excluded;

(2) the net income (but not loss) of any Person that is not a Restricted Subsidiary of the specified Person or that is accounted for by the equity method of accounting will be included only to the extent of the amount of dividends or similar distributions paid in cash to the specified Person or a Restricted Subsidiary of the Person;

(3) solely for purposes of clauses (3)(A) through (E) of Section 4.12(a), the net income (but not loss) of any Restricted Subsidiary will be excluded to the extent that the declaration or payment of dividends or similar distributions by that Restricted Subsidiary of that net income is not at the date of determination permitted without any prior governmental approval (that has not been obtained) or, directly or indirectly, by operation of the terms of its charter or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to that Restricted Subsidiary or its stockholders, except to the extent that a dividend or similar distribution is actually and lawfully made to such Person or to another Restricted Subsidiary of such Person that is not subject to any such restriction on dividends or similar distributions; *provided* that restrictions under the laws of South Korea or restrictions in any Credit Facilities that were permitted by the terms of this Indenture and of the Existing Indenture (as long as it remains outstanding) to be incurred will be disregarded for purposes of this clause (3);

(4) all non-cash compensation expense will be excluded;

(5) all amortization of intangible assets will be excluded;

(6) any impact of foreign currency translation gains and losses (including gains and losses related to currency remeasurements of Indebtedness) will be excluded;

(7) all non-cash asset impairment charges and similar non-cash asset write-downs and write-offs will be excluded;

(8) the cumulative effect of a change in accounting principles will be excluded;

(9) the one-time special incentive cash payment to employees (excluding management) in connection with the Parent’s initial public offering in 2011 shall be excluded;

(10) non-cash gains and losses attributable to movement in the mark-to-market valuation of Hedging Obligations pursuant to Financial Accounting Standards Board Statement No. 133 will be excluded; and

(11) financial statement restatement related charges and expenses will be excluded.

“**Corporate Trust Office**” means the principal office of the Trustee at which at any time its corporate trust business shall be administered, which office at the date hereof is located at 100 Wall Street – Suite 1600, New York, NY 10005, Attention: U.S. Bank Global Corporate Trust Services – MagnaChip Semiconductor S.A. Administrator, or such other address as the Trustee may designate from time to time by notice to the Holders, the Company and the Parent, or the principal corporate trust office of any successor trustee (or such other address as such successor trustee may designate from time to time by notice to the Holders and the Company); *provided* that all notices to the Corporate Trust Office under this Indenture shall be addressed in accordance with Section 18.03.

“**Credit Facilities**” means one or more indentures, purchase agreements, debt facilities or commercial paper facilities providing for the issuance of debt securities, revolving credit loans, term loans, receivables financing (including through the sale of receivables to such lenders or to special purpose entities formed to borrow from such lenders against such receivables), letters of credit or other long-term Indebtedness, including any notes, mortgages, guarantees, collateral documents, instruments and agreements executed in connection therewith, in each case, as amended, restated, modified, renewed, refunded, replaced in any manner (whether upon or after termination or otherwise) or refinanced (including by means of sales of debt securities to institutional investors) in whole or in part from time to time., including any such repayment, refunding or refinancing facility, indenture or other agreement that increases the amount borrowed thereunder, alters the maturity thereof or is issued by the same or a different borrowers or issuers and whether by the same or any other agent, lender or group of lenders or securityholders.

“**Custodian**” means the Trustee, as custodian for The Depository Trust Company, with respect to the Global Notes, or any successor entity thereto.

“**Default**” means any event that is, or after notice or passage of time, or both, would be, an Event of Default.

“**Defaulted Amounts**” means any amounts on any Note (including, without limitation the Fundamental Change Repurchase Price, principal and interest) that are payable but are not punctually paid or duly provided for.

“**Depository**” means, with respect to each Global Note, the Person specified in Section 2.05(c) as the Depository with respect to such Notes, until a successor shall have been appointed and become such pursuant to the applicable provisions of this Indenture, and thereafter, “**Depository**” shall mean or include such successor.

“Disqualified Stock” means any Capital Stock that, by its terms (or by the terms of any security into which it is convertible, or for which it is exchangeable, in each case, at the option of the holder of the Capital Stock), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or redeemable at the option of the holder of the Capital Stock, in whole or in part, on or prior to the date that is 91 days after the date on which the Notes mature. Notwithstanding the preceding sentence, any Capital Stock that would constitute Disqualified Stock solely because the holders of the Capital Stock have the right to require the Parent to repurchase such Capital Stock upon the occurrence of a change of control or an asset sale will not constitute Disqualified Stock if the terms of such Capital Stock provide that the Parent may not repurchase or redeem any such Capital Stock pursuant to such provisions unless such repurchase or redemption complies with Section 4.12. The amount of Disqualified Stock deemed to be outstanding at any time for purposes of this Indenture will be the maximum amount that the Parent and its Restricted Subsidiaries may become obligated to pay upon the maturity of, or pursuant to any mandatory redemption provisions of, such Disqualified Stock, exclusive of accrued dividends.

“Distributed Property” shall have the meaning specified in Section 14.04(c).

“Effective Date” shall have the meaning specified in Section 14.03(c), except that, as used in Section 14.04 and Section 14.05, **“Effective Date”** means the first date on which shares of the Common Stock trade on the applicable exchange or in the applicable market, regular way, reflecting the relevant share split or share combination, as applicable.

“Equity Interests” means Capital Stock and all warrants, options or other rights to acquire Capital Stock (but excluding any debt security that is convertible into, or exchangeable for, Capital Stock).

“Event of Default” shall have the meaning specified in Section 6.01.

“Ex-Dividend Date” means the first date on which shares of the Common Stock trade on the applicable exchange or in the applicable market, regular way, without the right to receive the issuance, dividend or distribution in question, from the Parent or, if applicable, from the seller of Common Stock on such exchange or market (in the form of due bills or otherwise) as determined by such exchange or market.

“Exchange Act” means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

“Exchange Agent” shall have the meaning specified in Section 4.02.

“Exchange Date” shall have the meaning specified in Section 14.02(c).

“Exchange Obligation” shall have the meaning specified in Section 14.01.

“Exchange Rate” shall have the meaning specified in Section 14.01.

“Existing Indebtedness” means all Indebtedness of the Parent and its Restricted Subsidiaries in existence on the Issue Date, until such amounts are repaid.

“**Existing Indenture**” means that certain indenture, dated as of July 18, 2013, between the Parent and Wilmington Trust, National Association, as trustee thereunder, governing the Existing Notes.

“**Existing Notes**” means the 6.625% Senior Notes due 2021 of MagnaChip Semiconductor Corporation outstanding on the Issue Date.

“**Fair Market Value**” means the value that would be paid by a willing buyer to an unaffiliated willing seller in a transaction not involving distress or necessity of either party, determined in good faith by the Board of Directors of the Parent (unless otherwise provided in this Indenture).

“**Fixed Charge Coverage Ratio**” means with respect to any specified Person for any period, the ratio of the Consolidated EBITDA of such Person for such period to the Fixed Charges of such Person for such period. In the event that the specified Person or any of its Restricted Subsidiaries incurs, assumes, guarantees, repays, repurchases, redeems, defeases or otherwise discharges any Indebtedness (other than ordinary working capital borrowings) or issues, repurchases or redeems preferred stock subsequent to the commencement of the period for which the Fixed Charge Coverage Ratio is being calculated and on or prior to the date on which the event for which the calculation of the Fixed Charge Coverage Ratio is made (the “**Calculation Date**”), then the Fixed Charge Coverage Ratio will be calculated giving pro forma effect to such incurrence, assumption, Guarantee, repayment, repurchase, redemption, defeasance or other discharge of Indebtedness, or such issuance, repurchase or redemption of preferred stock, and the use of the proceeds therefrom, as if the same had occurred at the beginning of the applicable four-quarter reference period.

In addition, for purposes of calculating the Fixed Charge Coverage Ratio:

(1) acquisitions that have been made by the specified Person or any of its Restricted Subsidiaries, including through mergers or consolidations, or any Person or any of its Restricted Subsidiaries acquired by the specified Person or any of its Restricted Subsidiaries, and including all related financing transactions and including increases in ownership of Restricted Subsidiaries, during the four-quarter reference period or subsequent to such reference period and on or prior to the Calculation Date, or that are to be made on the Calculation Date, will be given pro forma effect as if they had occurred on the first day of the four-quarter reference period, including all Pro Forma Cost Savings, as if the same had been realized at the beginning of such four-quarter period;

(2) the Consolidated EBITDA attributable to discontinued operations, as determined in accordance with GAAP, and operations or businesses (and ownership interests therein) disposed of prior to the Calculation Date, will be excluded;

(3) the Fixed Charges attributable to discontinued operations, as determined in accordance with GAAP, and operations or businesses (and ownership interests therein) disposed of prior to the Calculation Date, will be excluded, but only to the extent that the obligations giving rise to such Fixed Charges will not be obligations of the specified Person or any of its Restricted Subsidiaries following the Calculation Date;

(4) any Person that is a Restricted Subsidiary on the Calculation Date will be deemed to have been a Restricted Subsidiary at all times during such four-quarter period;

(5) any Person that is not a Restricted Subsidiary on the Calculation Date will be deemed not to have been a Restricted Subsidiary at any time during such four-quarter period; and

(6) if any Indebtedness bears a floating rate of interest, the interest expense on such Indebtedness will be calculated as if the rate in effect on the Calculation Date had been the applicable rate for the entire period (taking into account any Hedging Obligation applicable to such Indebtedness if such Hedging Obligation has a remaining term as at the Calculation Date in excess of 12 months).

“**Fixed Charges**” means, with respect to any specified Person for any period, the sum, without duplication, of:

(1) the consolidated interest expense of such Person and its Restricted Subsidiaries for such period, whether paid or accrued, including, without limitation, amortization of debt issuance costs and original issue discount, non-cash interest payments, the interest component of any deferred payment obligations, the interest component of all payments associated with Capital Lease Obligations, commissions, discounts and other fees and charges incurred in respect of letter of credit or bankers’ acceptance financings, and net of the effect of all payments made or received pursuant to Hedging Obligations in respect of interest rates; *plus*

(2) the consolidated interest expense of such Person and its Restricted Subsidiaries that was capitalized during such period; *plus*

(3) any interest on Indebtedness of another Person that is guaranteed by such Person or one of its Restricted Subsidiaries or secured by a Lien on assets of such Person or one of its Restricted Subsidiaries, whether or not such Guarantee or Lien is called upon; *plus*

(4) the product of (a) all dividends, whether paid or accrued and whether or not in cash, on any series of preferred stock of such Person or any of its Restricted Subsidiaries, other than dividends on Equity Interests payable solely in Equity Interests of the Parent (other than Disqualified Stock) or to the Parent or a Restricted Subsidiary of the Parent, *times* (b) a fraction, the numerator of which is one and the denominator of which is one minus the then current combined federal, state and local statutory tax rate of such Person, expressed as a decimal, in each case, determined on a consolidated basis in accordance with GAAP.

“**Foreign Subsidiary**” means any Restricted Subsidiary that is not formed under the laws of the United States or any state of the United States or the District of Columbia, and any Restricted Subsidiary of such Foreign Subsidiary.

“**Form of Assignment and Transfer**” means the “Form of Assignment and Transfer” attached as Attachment 3 to the Form of Note attached hereto as Exhibit A.

“Form of Fundamental Change Repurchase Notice” means the “Form of Fundamental Change Repurchase Notice” attached as Attachment 2 to the Form of Note attached hereto as Exhibit A.

“Form of Note” means the “Form of Note” attached hereto as Exhibit A.

“Form of Notice of Exchange” means the “Form of Notice of Exchange” attached as Attachment 1 to the Form of Note attached hereto as Exhibit A.

“Fundamental Change” shall be deemed to have occurred at the time after the Notes are originally issued if any of the following occurs:

(a) a “person” or “group” within the meaning of Section 13(d) of the Exchange Act, other than the Parent, its Subsidiaries and the employee benefit plans of the Parent and its Subsidiaries, has become the direct or indirect “beneficial owner,” as defined in Rule 13d-3 under the Exchange Act, of the Parent’s Common Equity representing more than 50% of the voting power of the Parent’s Common Equity;

(b) the consummation of (A) any recapitalization, reclassification or change of the Common Stock (other than changes resulting from a subdivision or combination or a change only in par value or from par value to no par value or no par value to par value) as a result of which the Common Stock would be converted into, or exchanged for, stock, other securities, other property or assets; (B) any share exchange, consolidation or merger of the Parent pursuant to which the Common Stock will be converted into cash, securities or other property; or (C) any sale, lease or other transfer in one transaction or a series of transactions of all or substantially all of the consolidated assets of the Parent and its Subsidiaries, taken as a whole, to any Person other than one of the Parent’s Subsidiaries; *provided, however*, that a transaction described in clause (A) or clause (B) in which the holders of all classes of the Parent’s Common Equity immediately prior to such transaction own, directly or indirectly, more than 50% of all classes of Common Equity of the continuing or surviving corporation or transferee or the parent thereof immediately after such transaction in substantially the same proportions as such ownership immediately prior to such transaction shall not be a Fundamental Change pursuant to this clause (b);

(c) the Parent (or any successor thereto as herein permitted) ceases to control the Company; *provided, however*, that the pro rata distribution by the Parent to its stockholders of shares of its Capital Stock or shares of any of the Parent’s other Subsidiaries will not, in and of itself, constitute a Fundamental Change for purposes of this definition;

(d) the stockholders of the Company or the Parent approve any plan or proposal for the liquidation or dissolution of the Company or the Parent, as applicable; or

(e) the Common Stock (or other common equity underlying the Notes) ceases to be listed or quoted on any of The New York Stock Exchange, The NASDAQ Global Select Market or The NASDAQ Global Market (or any of their respective successors);

provided, however, that a transaction or transactions described in clause (a) or clause (b) above shall not constitute a Fundamental Change, if at least 90% of the consideration received or to be received by the common stockholders of the Parent, excluding cash payments for fractional shares and cash payments in respect of dissenters' appraisal rights, in connection with such transaction or transactions consists of shares of common stock that are listed or quoted on any of The New York Stock Exchange, The NASDAQ Global Select Market or The NASDAQ Global Market (or any of their respective successors) or will be so listed or quoted when issued or exchanged in connection with such transaction or transactions and as a result of such transaction or transactions such consideration becomes the Reference Property for the Notes. If any transaction in which the Common Stock is replaced by the securities of another entity occurs, following completion of any related Make-Whole Fundamental Change Period (or, in the case of a transaction that would have been a Fundamental Change or a Make-Whole Fundamental Change but for the proviso immediately following clause (b) of this definition, following the effective date of such transaction) references to the Parent in this definition shall instead be references to such other entity.

"Fundamental Change Company Notice" shall have the meaning specified in Section 15.01(c).

"Fundamental Change Repurchase Date" shall have the meaning specified in Section 15.01(a).

"Fundamental Change Repurchase Notice" shall have the meaning specified in Section 15.01(b)(1).

"Fundamental Change Repurchase Price" shall have the meaning specified in Section 15.01(a).

"GAAP" means United States generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as have been approved by a significant segment of the accounting profession in the United States, which are in effect from time to time.

"Global Note" shall have the meaning specified in Section 2.05(b).

"Government Securities" means direct obligations of, or obligations guaranteed by, the United States of America (including any agency or instrumentality thereof) for the payment of which obligations or guarantees the full faith and credit of the United States of America is pledged and which are not callable or redeemable at the issuer's option.

"Guarantee" means a guarantee other than by endorsement of negotiable instruments for collection in the ordinary course of business, direct or indirect, in any manner including, without limitation, by way of a pledge of assets or through letters of credit or reimbursement agreements in respect thereof, of all or any part of any Indebtedness (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take or pay or to maintain financial statement conditions or otherwise).

“Guarantor” means the Parent and any Subsidiary of the Parent or of the Company that after the Issue Date Guarantees the Notes pursuant to the terms of this Indenture.

“Hedging Obligations” means, with respect to any specified Person, the obligations of such Person under:

- (1) interest rate swap agreements (whether from fixed to floating or from floating to fixed), interest rate cap agreements and interest rate collar agreements;
- (2) other agreements or arrangements designed to manage interest rates or interest rate risk; and
- (3) other agreements or arrangements designed to protect such Person against fluctuations in currency exchange rates or commodity prices.

“Holder,” as applied to any Note, or other similar terms (but excluding the term “beneficial holder”), means any Person in whose name at the time a particular Note is registered on the Note Register.

“Indebtedness” means, with respect to any specified Person, any indebtedness of such Person (excluding accrued expenses and trade payables), whether or not contingent:

- (1) in respect of borrowed money;
- (2) evidenced by bonds, notes, debentures or similar instruments or letters of credit (or reimbursement agreements in respect thereof);
- (3) in respect of banker’s acceptances;
- (4) representing Capital Lease Obligations;
- (5) representing the balance deferred and unpaid of the purchase price of any property or services due more than six months after such property is acquired or such services are completed; or
- (6) representing any Hedging Obligations,

if and to the extent any of the preceding items (other than letters of credit and Hedging Obligations) would appear as a liability upon a balance sheet of the specified Person prepared in accordance with GAAP. In addition, the term “Indebtedness” includes all Indebtedness of others secured by a Lien on any asset of the specified Person (whether or not such Indebtedness is assumed by the specified Person) and, to the extent not otherwise included, the Guarantee by the specified Person of any Indebtedness of any other Person. Indebtedness shall be calculated without giving effect to the effects of Statement of Financial Accounting Standards No. 133 and related interpretations to the extent such effects would otherwise increase or decrease an amount of Indebtedness for any purpose under this Indenture as a result of accounting for any embedded derivatives created by the terms of such Indebtedness.

“Indenture” means this instrument as originally executed or, if amended or supplemented as herein provided, as so amended or supplemented.

“Initial Purchasers” means Barclays Capital Inc., Citigroup Global Markets Inc., BTIG, LLC and Roth Capital Partners, LLC.

“Interest Payment Date” means each March 1 and September 1 of each year, beginning on March 1, 2017 (or such other date as may be set forth in the certificate representing the relevant Note).

“Investments” means, with respect to any Person, all direct or indirect investments by such Person in other Persons (including Affiliates) in the forms of loans (including Guarantees or other obligations), advances or capital contributions (excluding commission, travel and similar advances to officers and employees made in the ordinary course of business), purchases or other acquisitions for consideration of Indebtedness, Equity Interests or other securities, together with all items that are or would be classified as investments on a balance sheet prepared in accordance with GAAP. If the Parent or any Restricted Subsidiary of the Parent sells or otherwise disposes of any Equity Interests of any direct or indirect Restricted Subsidiary of the Parent such that, after giving effect to any such sale or disposition, such Person is no longer a Restricted Subsidiary of the Parent, the Parent will be deemed to have made an Investment on the date of any such sale or disposition equal to the Fair Market Value of the Parent’s Investments in such Subsidiary that were not sold or disposed of in an amount determined as provided in the final paragraph of Section 4.12. The acquisition by the Parent or any Restricted Subsidiary of the Parent of a Person that holds an Investment in a third Person will be deemed to be an Investment by the Parent or such Restricted Subsidiary in such third Person in an amount equal to the Fair Market Value of the Investments held by the acquired Person in such third Person in an amount determined as provided in the final paragraph of Section 4.12. Except as otherwise provided in this Indenture, the amount of an Investment will be determined at the time the Investment is made and without giving effect to subsequent changes in value.

“Issue Date” means January 17, 2017.

“Last Reported Sale Price” of the Common Stock for any Trading Day means the closing sale price per share (or, if no closing sale price is reported, the average of the last bid price and the last ask price per share or, if more than one in either case, the average of the average last bid prices and the average last ask prices per share) of the Common Stock on such Trading Day as reported in composite transactions for the principal U.S. national or regional securities exchange on which the Common Stock is then listed. If the Common Stock is not listed on a U.S. national or regional securities exchange on such trading day, then the Last Reported Sale Price will be the last quoted bid price per share of Common Stock on such trading day in the over-the-counter market as reported by OTC Markets Group Inc. or a similar organization. If the Common Stock is not so quoted on such Trading Day, then the Last Reported Sale Price will be the average of the mid-point of the last bid price and the last ask price per share of Common Stock on such Trading Day from a nationally recognized independent investment banking firm the Company selects, which may include any of the Initial Purchasers.

“**Lien**” means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset, whether or not filed, recorded or otherwise perfected under applicable law, including any conditional sale or other title retention agreement, any lease in the nature thereof, any option or other agreement to sell or give a security interest in and any filing of or agreement to give any financing statement under the Uniform Commercial Code (or equivalent statutes) of any jurisdiction.

“**MagnaChip Korea**” means MagnaChip Semiconductor, Ltd.

“**Make-Whole Fundamental Change**” means any transaction or event that constitutes a Fundamental Change (as defined above and determined after giving effect to any exceptions to or exclusions from such definition, but without regard to the *proviso* in clause (b) of the definition thereof).

“**Make-Whole Fundamental Change Period**” shall have the meaning specified in Section 14.03(a).

“**Market Disruption Event**” means, with respect to any date, the occurrence or existence, during the one half hour period ending at the scheduled close of trading on such date on the principal U.S. national or regional securities exchange or other market on which the Common Stock is listed or admitted for trading or trades, of any material suspension or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the relevant stock exchange or otherwise) in the Common Stock or in any options, contracts or futures contracts relating to the Common Stock.

“**Maturity Date**” means March 1, 2021.

“**Merger Event**” shall have the meaning specified in Section 14.07(a).

“**Non-Recourse Debt**” means Indebtedness:

(1) as to which neither the Parent nor any of its Restricted Subsidiaries (a) provides credit support of any kind (including any undertaking, agreement or instrument that would constitute Indebtedness) or (b) is directly or indirectly liable as a guarantor or otherwise; and

(2) as to which the lenders have been notified in writing that they will not have any recourse to the stock or assets of the Parent or any of its Restricted Subsidiaries (other than the Equity Interests of an Unrestricted Subsidiary).

“**Note**” or “**Notes**” shall have the meaning specified in the first paragraph of the recitals of this Indenture.

“**Note Guarantee**” shall have the meaning specified in Section 13.01.

“**Note Guarantee Obligations**” shall have the meaning specified in Section 13.01.

“**Note Register**” shall have the meaning specified in Section 2.05(a).

“**Note Registrar**” shall have the meaning specified in Section 2.05(a).

“**Notice of Exchange**” shall have the meaning specified in Section 14.02(b).

“**Obligations**” means any principal, interest, penalties, fees, indemnifications, reimbursements, damages and other liabilities payable under the documentation governing any Indebtedness.

“**Offering Memorandum**” means the preliminary offering memorandum dated January 10, 2017, as supplemented by the related pricing term sheet dated January 10, 2017, relating to the offering and sale of the Notes.

“**Officer**” means, with respect to the Company or the Parent, the President, the Chief Executive Officer, the Treasurer, the Secretary, any Executive or Senior Vice President or any Vice President (whether or not designated by a number or numbers or word or words added before or after the title “Vice President”), as applicable, and, with respect to the Company, a director of the Company.

“**Officer’s Certificate**,” when used with respect to the Company, means a certificate that is delivered to the Trustee and that is signed by an Officer of the Company who is an Officer of the Parent or by a director of the Company. Each such certificate shall include the statements provided for in Section 18.05 if and to the extent required by the provisions of such Section.

“**open of business**” means 9:00 a.m. (New York City time).

“**Opinion of Counsel**” means an opinion in writing signed by legal counsel, who may be an employee of or counsel to the Company, or other counsel acceptable to the Trustee, that is delivered to the Trustee. Each such opinion shall include the statements provided for in Section 18.05 if and to the extent required by the provisions of such Section 18.05.

“**outstanding**,” when used with reference to Notes, shall, subject to the provisions of Section 8.04, mean, as of any particular time, all Notes authenticated and delivered by the Trustee under this Indenture, except:

(a) Notes theretofore canceled by the Trustee or accepted by the Trustee for cancellation;

(b) Notes, or portions thereof, that have become due and payable and in respect of which monies in the necessary amount shall have been deposited in trust with the Trustee or with any Paying Agent (other than the Company) or shall have been set aside and segregated in trust by the Company (if the Company shall act as its own Paying Agent);

(c) Notes that have been paid pursuant to Section 2.06 or Notes in lieu of which, or in substitution for which, other Notes shall have been authenticated and delivered pursuant to the terms of Section 2.06 unless proof satisfactory to the Trustee is presented that any such Notes are held by protected purchasers in due course;

(d) Notes exchanged pursuant to Article 14 and required to be cancelled pursuant to Section 2.08; and

(e) Notes repurchased by the Company pursuant to the penultimate sentence of Section 2.10.

“**Paying Agent**” shall have the meaning specified in Section 4.02.

“**Permitted Investments**” means:

(1) any Investment in the Parent or in a Restricted Subsidiary of the Parent;

(2) any Investment in Cash Equivalents;

(3) any Investment by the Parent or any Restricted Subsidiary of the Parent in a Person that is not a Restricted Subsidiary, if as a result of such Investment:

(a) such Person becomes a Restricted Subsidiary of the Parent; or

(b) such Person is merged, consolidated or amalgamated with or into, or transfers or conveys substantially all of its assets to, or is liquidated into, the Parent or a Restricted Subsidiary of the Parent;

(4) any Investment made as a result of the receipt of non-cash consideration from an Asset Sale;

(5) any acquisition of assets or Capital Stock solely in exchange for the issuance of Equity Interests (other than Disqualified Stock) of the Parent;

(6) any Investments received in compromise or resolution of (A) obligations of trade creditors or customers that were incurred in the ordinary course of business of the Parent or any of its Restricted Subsidiaries, including pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of any trade creditor or customer; or (B) litigation, arbitration or other disputes;

(7) Investments represented by Hedging Obligations;

(8) loans or advances to employees of the Parent or its Restricted Subsidiaries made in the ordinary course of business of the Parent or any Restricted Subsidiary of the Parent in an aggregate principal amount not to exceed \$10.0 million at any one time outstanding;

(9) repurchases of the Notes and repayment of the Existing Notes, including all applicable premiums and accrued interest thereon;

(10) (a) advances to customers in the ordinary course of business that are recorded as accounts receivable on the consolidated balance sheet of such Person and (b) payroll, travel and similar advances to cover matters that are expected at the time of the advances ultimately to be treated as expenses for accounting purposes and that are made in the ordinary course of business;

(11) any guarantee of Indebtedness permitted to be incurred by Section 4.10 other than a guarantee of Indebtedness of an Affiliate of the Parent that is not a Restricted Subsidiary of the Parent;

(12) any Investment existing on, or made pursuant to binding commitments existing on, the Issue Date and any Investment consisting of an extension, modification or renewal of any Investment existing on, or made pursuant to a binding commitment existing on, the Issue Date; *provided* that the amount of any such Investment may be increased (a) as required by the terms of such Investment as in existence on the Issue Date or (b) as otherwise permitted under this Indenture;

(13) Investments in any Person to the extent such Investments consist of prepaid expenses, negotiable instruments held for collection and lease, utility and workers' compensation, performance and other similar deposits made in the ordinary course of business by the Parent or any Restricted Subsidiary;

(14) Investments acquired after the Issue Date as a result of the acquisition by the Parent or any Restricted Subsidiary of the Parent of another Person, including by way of a merger, amalgamation or consolidation with or into the Parent or any of its Restricted Subsidiaries in a transaction that is not prohibited by Article 11 after the Issue Date to the extent that such Investments were not made in contemplation of such acquisition, merger, amalgamation or consolidation and were in existence on the date of such acquisition, merger, amalgamation or consolidation; and

(15) other Investments in any Person having an aggregate Fair Market Value (measured on the date each such Investment was made and without giving effect to subsequent changes in value), when taken together with all other Investments made pursuant to this clause (15) that are at the time outstanding not to exceed the greater of (a) \$50.0 million and (b) 6.0% of Total Assets as of the date of such Investment.

“Permitted Liens” means:

(1) Liens on assets of the Parent or any of its Restricted Subsidiaries securing Indebtedness and other Obligations under Credit Facilities that was permitted by the terms of this Indenture to be incurred pursuant to clauses (1) or (16) of the definition of Permitted Debt and/or securing Hedging Obligations and/or Obligations with regard to Treasury Management Arrangements;

(2) Liens in favor of the Parent, the Company or any Guarantor;

(3) Liens on property of a Person existing at the time such Person becomes a Restricted Subsidiary of the Parent or is merged with or into or consolidated with the Parent or any Restricted Subsidiary of the Parent; *provided* that such Liens were in existence prior to the contemplation of such Person becoming a Restricted Subsidiary of the Parent or such merger or consolidation and do not extend to any assets other than those of the Person that becomes a Restricted Subsidiary of the Parent or is merged with or into or consolidated with the Parent or any Restricted Subsidiary of the Parent;

(4) Liens on property (including Capital Stock) existing at the time of acquisition of the property by the Parent or any of the Restricted Subsidiaries of the Parent; *provided* that such Liens were in existence prior to such acquisition and not incurred in contemplation of, such acquisition;

(5) Liens or deposits made in the ordinary course of business to secure the performance of tenders, bids, leases, contracts (except those related to borrowed money), statutory obligations, insurance, surety or appeal bonds, workers compensation obligations, performance bonds or other obligations of a like nature (including Liens to secure letters of credit issued to assure payment of such obligations) or arising as a result of progress payments under government contracts;

(6) Liens existing on the Issue Date;

(7) Liens for taxes, assessments or governmental charges or claims that are not yet delinquent or that are being contested in good faith by appropriate proceedings promptly instituted and diligently concluded; *provided* that any reserve or other appropriate provision as is required in conformity with GAAP has been made therefor;

(8) Liens imposed by law, such as carriers', warehousemen's, landlord's, mechanics', materialmen's, repairmen's, suppliers' or similar Liens, in each case, incurred in the ordinary course of business;

(9) survey exceptions, easements or reservations of, or rights of others for, licenses, rights-of-way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning or other restrictions as to the use of real property that were not incurred in connection with Indebtedness and that do not in the aggregate materially adversely affect the value of said properties or materially impair their use in the operation of the business of such Person;

(10) Liens created for the benefit of (or to secure) the Notes or any Note Guarantee;

(11) Liens to secure any Permitted Refinancing Indebtedness permitted to be incurred under this Indenture; *provided, however*, that:

(a) the new Lien is limited to all or part of the same property and assets that secured or, under the written agreements pursuant to which the original Lien arose, could secure the original Lien (plus improvements and accessions to, such property or proceeds or distributions thereof); and

(b) the Indebtedness secured by the new Lien is not increased to any amount greater than the sum of (x) the outstanding principal amount, or, if greater, committed amount, of the Indebtedness renewed, refunded, refinanced, replaced, defeased or discharged with such Permitted Refinancing Indebtedness and (y) an amount necessary to pay any fees and expenses, including premiums, related to such renewal, refunding, refinancing, replacement, defeasance or discharge;

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- (12) Liens on insurance policies and proceeds thereof, or other deposits, to secure insurance premium financings;
- (13) filing of Uniform Commercial Code financing statements as a precautionary measure in connection with operating leases;
- (14) bankers' Liens, rights of setoff, Liens arising out of judgments or awards not constituting an Event of Default and notices of *lis pendens* and associated rights related to litigation being contested in good faith by appropriate proceedings and for which adequate reserves have been made;
- (15) Liens on cash, Cash Equivalents or other property arising in connection with the defeasance, discharge or redemption of Indebtedness;
- (16) Liens on specific items of inventory or other goods (and the proceeds thereof) of any Person securing such Person's obligations in respect of bankers' acceptances issued or created in the ordinary course of business for the account of such Person to facilitate the purchase, shipment or storage of such inventory or other goods;
- (17) grants of software and other technology licenses in the ordinary course of business;
- (18) leases or subleases granted in the ordinary course of business to third Persons not materially interfering with the business of the Parent and its Restricted Subsidiaries taken as a whole;
- (19) Liens arising out of conditional sale, title retention, consignment or similar arrangements for the sale of goods entered into in the ordinary course of business;
- (20) Liens in favor of customs and revenue authorities to secure payment of customs duties in connection with the importation of goods in the ordinary course of business and other similar Liens arising in the ordinary course of business;
- (21) Liens in connection with escrow deposits made in connection with any acquisition of assets; and
- (22) Liens incurred by the Parent or any Restricted Subsidiary of the Parent with respect to obligations that do not exceed \$15.0 million at any one time outstanding.

“Permitted Refinancing Indebtedness” means any Indebtedness of the Parent or any of its Restricted Subsidiaries issued in exchange for, or the net proceeds of which are used to renew, refund, refinance, replace, defease or discharge other Indebtedness of the Parent or any of its Restricted Subsidiaries (other than intercompany Indebtedness); *provided that*:

- (1) the principal amount (or accreted value, if applicable) of such Permitted Refinancing Indebtedness does not exceed the principal amount (or accreted value, if applicable) of the Indebtedness renewed, refunded, refinanced, replaced, defeased or discharged (plus all accrued interest on the Indebtedness and the amount of all fees and expenses, including premiums, incurred in connection therewith);
- (2) such Permitted Refinancing Indebtedness has a final maturity date later than the final maturity date of, and has a Weighted Average Life to Maturity that is (a) equal to or greater than the Weighted Average Life to Maturity of, the Indebtedness being renewed, refunded, refinanced, replaced, defeased or discharged or (b) more than 90 days after the final maturity date of the Notes;
- (3) if the Indebtedness being renewed, refunded, refinanced, replaced, defeased or discharged is subordinated in right of payment to the Notes, such Permitted Refinancing Indebtedness is subordinated in right of payment to the Notes on terms at least as favorable to the Holders of Notes as those contained in the documentation governing the Indebtedness being renewed, refunded, refinanced, replaced, defeased or discharged; and
- (4) such Indebtedness is incurred either by the Parent or by the Restricted Subsidiary of the Parent that was the obligor on the Indebtedness being renewed, refunded, refinanced, replaced, defeased or discharged and is guaranteed only by Persons who were obligors on the Indebtedness being renewed, refunded, refinanced, replaced, defeased or discharged.

“Person” means an individual, a corporation, a limited liability company, an association, a partnership, a joint venture, a joint stock company, a trust, an unincorporated organization or a government or an agency or a political subdivision thereof.

“Physical Notes” means permanent certificated Notes in registered form issued in denominations of \$1,000 principal amount and integral multiples thereof.

“Predecessor Note” of any particular Note means every previous Note evidencing all or a portion of the same debt as that evidenced by such particular Note; and, for the purposes of this definition, any Note authenticated and delivered under Section 2.06 in lieu of or in exchange for a mutilated, lost, destroyed or stolen Note shall be deemed to evidence the same debt as the mutilated, lost, destroyed or stolen Note that it replaces.

“Principals” means Avenue International Master, L.P., Avenue Investments, L.P., Avenue Special Situations Fund IV, L.P., Avenue Special Situations Fund V, L.P. and Avenue CDP-Global Opportunities Fund, L.P.

“Pro Forma Cost Savings” means, with respect to any four-quarter period, the reduction in net costs and expenses that:

(1) were directly attributable to an acquisition, Investment, disposition, merger, consolidation or discontinued operation or other specified action that occurred during the four-quarter period or after the end of the four-quarter period and on or prior to the Calculation Date and that would properly be reflected in a pro forma income statement prepared in accordance with Regulation S-X under the Securities Act, as then in effect;

(2) were actually implemented prior to the Calculation Date in connection with or as a result of an acquisition, Investment, disposition, merger, consolidation or discontinued operation or other specified action and that are supportable and quantifiable by the underlying accounting records; or

(3) relate to an acquisition, Investment, disposition, merger, consolidation or discontinued operation or other specified action and that the Company or the Parent reasonably determines are probable based upon specifically identifiable actions to be taken within twelve months of the date of the closing of the acquisition, Investment, disposition, merger, consolidation or discontinued operation or specified action;

provided that in each case contemplated by clause (3), to the extent such reductions in cost and expense are described in an Officer’s Certificate signed by the chief financial officer of the Parent and delivered to the Trustee, which Officer’s Certificate outlines the specific actions taken or to be taken, the net reductions in cost and expenses achieved or to be achieved from each such action and states that the Parent’s chief financial officer has determined that such cost and expense savings are probable.

“Purchase Agreement” means that certain Purchase Agreement, dated January 10, 2017, among the Company, the Parent and the Initial Purchasers.

“Qualifying Equity Interests” means Equity Interests of the Parent other than Disqualified Stock.

“Record Date” means, with respect to any dividend, distribution or other transaction or event in which the holders of Common Stock (or other applicable security) have the right to receive any cash, securities or other property or in which the Common Stock (or such other security) is exchanged for or converted into any combination of cash, securities or other property, the date fixed for determination of holders of the Common Stock (or such other security) entitled to receive such cash, securities or other property (whether such date is fixed by the Board of Directors, by statute, by contract or otherwise).

“Reference Property” shall have the meaning specified in Section 14.07(a).

“Regular Record Date,” with respect to any Interest Payment Date, means the February 15 or August 15 (whether or not such day is a Business Day) immediately preceding the applicable March 1 or September 1 Interest Payment Date, respectively.

“**Relevant Exchange**” means The New York Stock Exchange or, if the common stock is not then listed on the NYSE, the principal U.S. national or regional securities exchange on which the common stock is then listed for trading.

“**Responsible Officer**” means, when used with respect to the Trustee, any officer within the corporate trust department of the Trustee (or successor group of the Trustee) having direct responsibility for the administration of this Indenture, including any vice president, assistant vice president, assistant secretary, assistant treasurer, trust officer or any other officer of the Trustee who customarily performs functions similar to those performed by the Persons who at the time shall be such officers, respectively, or to whom any corporate trust matter is referred because of such person’s knowledge of and familiarity with the particular subject and who shall have direct responsibility for the administration of this Indenture.

“**Restricted Investment**” means an Investment other than a Permitted Investment.

“**Restricted Securities**” shall have the meaning specified in Section 2.05(c).

“**Restricted Subsidiary**” of a Person means any Subsidiary of the referent Person that is not an Unrestricted Subsidiary. Unless otherwise indicated herein, all references to Restricted Subsidiaries shall mean Restricted Subsidiaries of the Parent (including the Company).

“**Rule 144**” means Rule 144 as promulgated under the Securities Act.

“**Rule 144A**” means Rule 144A as promulgated under the Securities Act.

“**Securities Act**” means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

“**Significant Subsidiary**” means a Subsidiary that meets the definition of “significant subsidiary” in Article 1, Rule 1-02 of Regulation S-X under the Exchange Act.

“**Spin-Off**” shall have the meaning specified in Section 14.04(c).

“**Stated Maturity**” means, with respect to any installment of interest or principal on any series of Indebtedness, the date on which the payment of interest or principal was scheduled to be paid in the documentation governing such Indebtedness as of the Issue Date, and will not include any contingent obligations to repay, redeem or repurchase any such interest or principal prior to the date originally scheduled for the payment thereof.

“**Stock Price**” shall have the meaning specified in Section 14.03(c).

“**Subsidiary**” means, with respect to any Person, any corporation, association, partnership or other business entity of which more than 50% of the total voting power of shares of Capital Stock or other interests (including partnership interests) entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers, general partners or trustees thereof is at the time owned or controlled, directly or indirectly, by (i) such Person; (ii) such Person and one or more Subsidiaries of such Person; or (iii) one or more Subsidiaries of such Person.

“**Subsidiary Guarantor**” means any Restricted Subsidiary of the Parent that executes a supplemental indenture in accordance with Section 4.13 and provides a Note Guarantee.

“**Successor Company**” shall have the meaning specified in Section 11.01(a).

“**T+2 Effective Date**” means the date, if at all, the Relevant Exchange has adopted a normal settlement cycle of two business days for trading in the Common Stock, and the T+2 Effective Date will be the first date for which trades executed on that date are subject to such new cycle.

“**Total Assets**” means, as of any date, the total consolidated assets of the Parent and its Subsidiaries as of the most recent date for which internal financial statements are available as of that date, calculated in accordance with GAAP.

“**Trading Day**” means a day on which (i) there is no Market Disruption Event and (ii) trading in the Common Stock (or other security for which a Last Reported Sale Price must be determined) generally occurs on The New York Stock Exchange or, if the Common Stock (or such other security) is not then listed on The New York Stock Exchange, on the principal other U.S. national or regional securities exchange on which the Common Stock (or such other security) is then listed or, if the Common Stock (or such other security) is not then listed on a U.S. national or regional securities exchange, on the principal other market on which the Common Stock (or such other security) is then listed or admitted for trading and (iii) there is a Last Reported Sale Price for the Common Stock. If the Common Stock (or such other security) is not so listed or admitted for trading, “**Trading Day**” means a Business Day. If a day is not a Trading Day due to clause (i) of the definition of “Trading Day,” then the phrase “consecutive Trading Days” and similar phrases shall not take into account such day.

“**transfer**” shall have the meaning specified in Section 2.05(c).

“**Treasury Management Arrangement**” means any agreement or other arrangement governing the provision of treasury or cash management services, including deposit accounts, overdraft, credit or debit card, funds transfer, automated clearinghouse, zero balance accounts, returned check concentration, controlled disbursement, lockbox, account reconciliation and reporting and trade finance services and other cash management services.

“**Trust Indenture Act**” means the Trust Indenture Act of 1939, as amended, as it was in force at the date of execution of this Indenture; *provided, however,* that in the event the Trust Indenture Act of 1939 is amended after the date hereof, the term “Trust Indenture Act” shall mean, to the extent required by such amendment, the Trust Indenture Act of 1939, as so amended.

“**Trustee**” means the Person named as the “**Trustee**” in the first paragraph of this Indenture until a successor trustee shall have become such pursuant to the applicable provisions of this Indenture, and thereafter “**Trustee**” shall mean or include each Person who is then a Trustee hereunder.

“**Unrestricted Subsidiary**” means any Subsidiary of the Parent that is designated by the Board of Directors of the Parent as an Unrestricted Subsidiary pursuant to a resolution of the Board of Directors of the Parent, but only to the extent that such Subsidiary:

(1) has no Indebtedness other than Non-Recourse Debt;

(2) except as permitted by Section 4.15 is not party to any agreement, contract, arrangement or understanding with the Parent or any Restricted Subsidiary of the Parent unless the terms of any such agreement, contract, arrangement or understanding are no less favorable to the Parent or such Restricted Subsidiary than those that might be obtained at the time from Persons who are not Affiliates of the Parent.

(3) is a Person with respect to which neither the Parent nor any of its Restricted Subsidiaries has any direct or indirect obligation (a) to subscribe for additional Equity Interests or (b) to maintain or preserve such Person’s financial condition or to cause such Person to achieve any specified levels of operating results; and

(4) has not guaranteed or otherwise directly or indirectly provided credit support for any Indebtedness of the Parent or any of its Restricted Subsidiaries; *provided, however*, that the Parent and its Restricted Subsidiaries may guarantee the performance of Unrestricted Subsidiaries in the ordinary course of business except for Guarantees of Indebtedness.

“**Valuation Period**” shall have the meaning specified in Section 14.04(c).

“**Weighted Average Life to Maturity**” means, when applied to any Indebtedness at any date, the number of years obtained by dividing:

(1) the sum of the products obtained by multiplying (a) the amount of each then remaining installment, sinking fund, serial maturity or other required payments of principal, including payment at final maturity, in respect of the Indebtedness, by (b) the number of years (calculated to the nearest one-twelfth) that will elapse between such date and the making of such payment; *by*

(2) the then outstanding principal amount of such Indebtedness.

ARTICLE 2

ISSUE, DESCRIPTION, EXECUTION, REGISTRATION AND EXCHANGE OF NOTES

Section 2.01. *Designation and Amount.* The Notes shall be designated as the “5.00% Exchangeable Senior Notes due 2021.” The aggregate principal amount of Notes that may be authenticated and delivered under this Indenture is initially limited to \$86,250,000 (subject to Section 2.10) except for Notes authenticated and delivered upon registration or transfer of, or in exchange for, or in lieu of other Notes to the extent expressly permitted hereunder.

Section 2.02. *Form of Notes.* The Notes and the Trustee’s certificate of authentication to be borne by such Notes shall be substantially in the respective forms set forth in Exhibit A, the terms and provisions of which shall constitute, and are hereby expressly incorporated in and made a part of this Indenture. To the extent applicable, the Company, the Parent and the Trustee, by their execution and delivery of this Indenture, expressly agree to such terms and provisions and to be bound thereby.

Any Global Note may be endorsed with or have incorporated in the text thereof such legends or recitals or changes not inconsistent with the provisions of this Indenture as may be required by the Custodian or the Depository, or as may be required to comply with any applicable law or any regulation thereunder or with the rules and regulations of any securities exchange or automated quotation system upon which the Notes may be listed or traded or designated for issuance or to conform with any usage with respect thereto, or to indicate any special limitations or restrictions to which any particular Notes are subject.

Any of the Notes may have such letters, numbers or other marks of identification and such notations, legends or endorsements as the Officer executing the same may approve (execution thereof to be conclusive evidence of such approval) and as are not inconsistent with the provisions of this Indenture, or as may be required to comply with any law or with any rule or regulation made pursuant thereto or with any rule or regulation of any securities exchange or automated quotation system on which the Notes may be listed or designated for issuance, or to conform to usage or to indicate any special limitations or restrictions to which any particular Notes are subject.

Each Global Note shall represent such principal amount of the outstanding Notes as shall be specified therein and shall provide that it shall represent the aggregate principal amount of outstanding Notes from time to time endorsed thereon and that the aggregate principal amount of outstanding Notes represented thereby may from time to time be increased or reduced to reflect redemptions, repurchases, cancellations, exchanges, transfers or exchanges for other Notes permitted hereby. Any endorsement of a Global Note to reflect the amount of any increase or decrease in the amount of outstanding Notes represented thereby shall be made by the Trustee or the Custodian, at the direction of the Trustee, in such manner and upon instructions given by the Holder of such Notes in accordance with this Indenture. Payment of principal (including the Fundamental Change Repurchase Price, if applicable) of, and accrued and unpaid interest on, a Global Note shall be made to the Holder of such Note on the date of payment, unless a record date or other means of determining Holders eligible to receive payment is provided for herein.

Section 2.03. *Date and Denomination of Notes; Payments of Interest and Defaulted Amounts.* (a) The Notes shall be issuable in registered form without coupons in denominations of \$1,000 principal amount and integral multiples of \$1,000. Each Note shall be dated the date of its authentication and shall bear interest from the date specified on the face of such Note. Accrued interest on the Notes shall be computed on the basis of a 360-day year composed of twelve 30-day months and, for partial months, on the basis of the number of days actually elapsed in a 30-day month.

(b) The Person in whose name any Note (or its Predecessor Note) is registered on the Note Register at the close of business on any Regular Record Date with respect to any Interest Payment Date shall be entitled to receive the interest payable on such Interest Payment Date. The principal amount of any Note (x) in the case of any Physical Note, shall be payable at the office or agency of the Company maintained by the Company for such purposes in the Borough

of Manhattan, The City of New York, which shall initially be the Corporate Trust Office and (y) in the case of any Global Note, shall be payable by wire transfer of immediately available funds to the account of the Depository or its nominee. The Company shall pay, or cause the Paying Agent to pay, interest (i) on any Physical Notes (A) to Holders holding Physical Notes having an aggregate principal amount of \$5,000,000 or less, by check mailed to the Holders of these Notes at their address as it appears in the Note Register and (B) to Holders holding Physical Notes having an aggregate principal amount of more than \$5,000,000, either by check mailed to each Holder or, upon application by such a Holder to the Note Registrar not later than the relevant Regular Record Date, by wire transfer in immediately available funds to that Holder's account within the United States, which application shall remain in effect until the Holder notifies, in writing, the Note Registrar to the contrary or (ii) on any Global Note by wire transfer of immediately available funds to the account of the Depository or its nominee.

(c) Any Defaulted Amounts shall forthwith cease to be payable to the Holder on the relevant payment date but shall accrue interest per annum at the rate borne by the Notes, subject to the enforceability thereof under applicable law, from, and including, such relevant payment date, and such Defaulted Amounts together with such interest thereon shall be paid by the Company, at its election in each case, as provided in clause (i) or (ii) below:

(1) The Company may elect to make payment of any Defaulted Amounts to the Persons in whose names the Notes (or their respective Predecessor Notes) are registered at the close of business on a special record date for the payment of such Defaulted Amounts, which shall be fixed in the following manner. The Company shall notify the Trustee in writing of the amount of the Defaulted Amounts proposed to be paid on each Note and the date of the proposed payment (which shall be not less than 25 days after the receipt by the Trustee of such notice, unless the Trustee shall consent to an earlier date), and at the same time the Company shall deposit with the Trustee an amount of money equal to the aggregate amount to be paid in respect of such Defaulted Amounts or shall make arrangements satisfactory to the Trustee for such deposit on or prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the Persons entitled to such Defaulted Amounts as in this clause provided. Thereupon the Company shall fix a special record date for the payment of such Defaulted Amounts which shall be not more than 15 days and not less than 10 days prior to the date of the proposed payment, and not less than 10 days after the receipt by the Trustee of the notice of the proposed payment. The Company shall promptly notify the Trustee in writing of such special record date and the Trustee, in the name and at the expense of the Company, shall cause notice of the proposed payment of such Defaulted Amounts and the special record date therefor to be mailed, first-class postage prepaid, or by electronic submission in the case of Global Notes, to each Holder at its address as it appears in the Note Register, not less than 10 days prior to such special record date. Notice of the proposed payment of such Defaulted Amounts and the special record date therefor having been so mailed, such Defaulted Amounts shall be paid to the Persons in whose names the Notes (or their respective Predecessor Notes) are registered at the close of business on such special record date and shall no longer be payable pursuant to the following clause (ii) of this Section 2.03(c).

(2) The Company may make payment of any Defaulted Amounts in any other lawful manner not inconsistent with the requirements of any securities exchange or automated quotation system on which the Notes may be listed or designated for issuance, and upon such notice as may be required by such exchange or automated quotation system, if, after notice given by the Company to the Trustee of the proposed payment pursuant to this clause, such manner of payment shall be deemed practicable by the Trustee.

Section 2.04. *Execution, Authentication and Delivery of Notes.* The Notes shall be signed in the name and on behalf of the Company by the manual or facsimile signature of an Officer.

At any time and from time to time after the execution and delivery of this Indenture, the Company may deliver Notes executed by the Company to the Trustee for authentication, together with a Company Order for the authentication and delivery of such Notes, and the Trustee in accordance with such Company Order shall authenticate and deliver such Notes, without any further action by the Company hereunder.

Only such Notes as shall bear thereon a certificate of authentication substantially in the form set forth on the Form of Note attached as Exhibit A hereto, executed manually or by facsimile by an authorized officer of the Trustee (or an authenticating agent appointed by the Trustee as provided by Section 18.10), shall be entitled to the benefits of this Indenture or be valid or obligatory for any purpose. Such certificate by the Trustee (or such an authenticating agent) upon any Note executed by the Company shall be conclusive evidence that the Note so authenticated has been duly authenticated and delivered hereunder and that the Holder is entitled to the benefits of this Indenture.

In case any Officer of the Company who shall have signed any of the Notes shall cease to be such Officer before the Notes so signed shall have been authenticated and delivered by the Trustee, or disposed of by the Company, such Notes nevertheless may be authenticated and delivered or disposed of as though the person who signed such Notes had not ceased to be such Officer of the Company; and any Note may be signed on behalf of the Company by such persons as, at the actual date of the execution of such Note, shall be the Officers of the Company, although at the date of the execution of this Indenture any such person was not such an Officer.

The Trustee shall have the right to decline to authenticate and deliver any Notes under this Indenture if the Trustee, being advised by counsel, determines that such action may not lawfully be taken or if the Trustee in good faith shall determine that such action would expose the Trustee to personal liability.

Section 2.05. *Exchange and Registration of Transfer of Notes; Restrictions on Transfer; Depositary.* (a) The Company shall cause to be kept at the Corporate Trust Office a register (the register maintained in such office or in any other office or agency of the Company designated pursuant to Section 4.02, the “**Note Register**”) in which, subject to such reasonable regulations as it may prescribe, the Company shall provide for the registration of Notes and of transfers of Notes. Such register shall be in written form or in any form capable of being converted into written form within a reasonable period of time. The Trustee is hereby initially appointed the “**Note Registrar**” for the purpose of registering Notes and transfers of Notes as herein provided. The Company may appoint one or more co-Note Registrars in accordance with Section 4.02.

Upon surrender for registration of transfer of any Note to the Note Registrar or any co-Note Registrar, and satisfaction of the requirements for such transfer set forth in this Section 2.05, the Company shall execute, and the Trustee shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Notes of any authorized denominations and of a like aggregate principal amount and bearing such restrictive legends as may be required by this Indenture.

Notes may be exchanged for other Notes of any authorized denominations and of a like aggregate principal amount, upon surrender of the Notes to be exchanged at any such office or agency maintained by the Company pursuant to Section 4.02. Whenever any Notes are so surrendered for exchange, the Company shall execute, and the Trustee shall authenticate and deliver, the Notes that the Holder making the exchange is entitled to receive, bearing registration numbers not contemporaneously outstanding.

All Notes presented or surrendered for registration of transfer or for exchange for other Notes, repurchase or exchange shall (if so required by the Company, the Trustee, the Note Registrar or any co-Note Registrar) be duly endorsed, or be accompanied by a written instrument or instruments of transfer in form satisfactory to the Company and duly executed, by the Holder thereof or its attorney-in-fact duly authorized in writing.

No service charge shall be imposed by the Company, the Trustee, the Note Registrar, any co-Note Registrar or the Paying Agent for any exchange, exchange of Notes for other Notes or registration of transfer of Notes, but the Company may require a Holder to pay a sum sufficient to cover any documentary, stamp or similar issue or transfer tax required in connection therewith as a result of the name of the Holder of new Notes issued upon such exchange or registration of transfer being different from the name of the Holder of the old Notes surrendered for exchange or registration of transfer.

None of the Company, the Trustee, the Note Registrar or any co-Note Registrar shall be required to exchange under this Section 2.05 or register a transfer of (i) any Notes surrendered for exchange in accordance with Article 14 or, if a portion of any Note is surrendered for exchange in accordance with Article 14, such portion thereof surrendered for exchange in accordance with Article 14, (ii) any Notes, or a portion of any Note, surrendered for repurchase (and not withdrawn) in accordance with Article 15 or (iii) any Notes selected for redemption in accordance with Article 16.

All Notes issued upon any registration of transfer or exchange of Notes in accordance with this Indenture shall be the valid obligations of the Company, evidencing the same debt, and entitled to the same benefits under this Indenture as the Notes surrendered upon such registration of transfer or exchange.

(b) So long as the Notes are eligible for book-entry settlement with the Depository, unless otherwise required by law, subject to the fourth paragraph from the end of Section 2.05(c) all Notes shall be represented by one or more Notes in global form (each, a “**Global Note**”)

registered in the name of the Depository or the nominee of the Depository. The transfer and exchange in accordance with this Section 2.05 of beneficial interests in a Global Note that does not involve the issuance of a Physical Note shall be effected through the Depository (but not the Trustee or the Custodian) in accordance with this Indenture (including the restrictions on transfer set forth herein) and the procedures of the Depository therefor.

(c) Every Note that bears or is required under this Section 2.05(c) to bear the legend set forth in this Section 2.05(c) (together with any Common Stock issued upon exchange of the Notes in accordance with Article 14 that is required to bear the legend set forth in Section 2.05(d), collectively, the **“Restricted Securities”**) shall be subject to the restrictions on transfer set forth in this Section 2.05(c) (including the legend set forth below), unless such restrictions on transfer shall be eliminated or otherwise waived by written consent of the Company and the Parent, and the Holder of each such Restricted Security, by such Holder’s acceptance thereof, agrees to be bound by all such restrictions on transfer. As used in this Section 2.05(c) and Section 2.05(d), the term **“transfer”** encompasses any sale, pledge, transfer or other disposition whatsoever of any Restricted Security.

Any certificate evidencing such Note (and all securities issued in exchange therefor or substitution thereof, other than Common Stock, if any, issued upon exchange thereof, which shall bear the legend set forth in Section 2.05(d), if applicable) shall bear a legend in substantially the following form (unless such Notes have been transferred pursuant to a registration statement that has become or been declared effective under the Securities Act and that continues to be effective at the time of such transfer, or sold pursuant to the exemption from registration provided by Rule 144 or any similar provision then in force under the Securities Act, or unless otherwise agreed by the Company in writing, with notice thereof to the Trustee):

This security and the common stock, if any, issuable upon exchange of this security have not been registered under the Securities Act of 1933, as amended (the “Securities Act”), and may not be offered, sold, pledged or otherwise transferred except in accordance with the following sentence. By its acquisition hereof or of a beneficial interest herein, the acquirer:

(1) represents that it and any account for which it is acting is a “qualified institutional buyer” (within the meaning of Rule 144A under the Securities Act) and that it exercises sole investment discretion with respect to each such account, and

(2) agrees for the benefit of MagnaChip Semiconductor S.A. (the “Company”) that it will not offer, sell, pledge or otherwise transfer this security or any beneficial interest herein prior to the date that is the later of (x) one year after the last original issue date hereof or such shorter period of time as permitted by Rule 144 under the Securities Act or any successor provision thereto and (y) such later date, if any, as may be required by applicable law, except:

(a) to the Company or any subsidiary thereof, or

(b) pursuant to a registration statement which has become effective under the Securities Act, or

-
- (c) to a qualified institutional buyer in compliance with Rule 144A under the Securities Act, or
- (d) pursuant to an exemption from registration provided by Rule 144 under the Securities Act or any other available exemption from the registration requirements of the Securities Act.

Prior to the registration of any transfer in accordance with clause (2)(d) above, the Company and the Trustee reserve the right to require the delivery of such legal opinions, certifications or other evidence as may reasonably be required in order to determine that the proposed transfer is being made in compliance with the Securities Act and applicable state securities laws. No representation is made as to the availability of any exemption from the registration requirements of the Securities Act.

No transfer of any Note will be registered by the Note Registrar unless the applicable box on the Form of Assignment and Transfer has been checked.

Any Note (or security issued in exchange or substitution therefor) (i) as to which such restrictions on transfer shall have expired in accordance with their terms, (ii) that has been transferred pursuant to a registration statement that has become effective or been declared effective under the Securities Act and that continues to be effective at the time of such transfer or (iii) that has been sold pursuant to the exemption from registration provided by Rule 144 or any similar provision then in force under the Securities Act, may, upon surrender of such Note for exchange to the Note Registrar in accordance with the provisions of this Section 2.05, be exchanged for a new Note or Notes, of like tenor and aggregate principal amount, which shall not bear the restrictive legend required by this Section 2.05(c) and shall not be assigned a restricted CUSIP number. The Company shall be entitled to instruct the Custodian in writing to so surrender any Global Note as to which any of the conditions set forth in clause (i) through (iii) of the immediately preceding sentence have been satisfied, and, upon such instruction, the Custodian shall so surrender such Global Note for exchange; and any new Global Note so exchanged therefor shall not bear the restrictive legend specified in this Section 2.05(c) and shall not be assigned a restricted CUSIP number. The Company shall promptly notify the Trustee in writing after a registration statement, if any, with respect to the Notes or any Common Stock issued upon exchange of the Notes has been declared effective under the Securities Act.

Notwithstanding any other provisions of this Indenture (other than the provisions set forth in this Section 2.05(c)), a Global Note may not be transferred as a whole or in part except (i) by the Depositary to a nominee of the Depositary or by a nominee of the Depositary to the Depositary or another nominee of the Depositary or by the Depositary or any such nominee to a successor Depositary or a nominee of such successor Depositary and (ii) for exchange of a Global Note or a portion thereof for one or more Physical Notes in accordance with the second immediately succeeding paragraph.

The Depositary shall be a clearing agency registered under the Exchange Act. The Company initially appoints The Depositary Trust Company to act as Depositary with respect to each Global Note. Initially, each Global Note shall be issued to the Depositary, registered in the name of Cede & Co., as the nominee of the Depositary, and deposited with the Trustee as custodian for Cede & Co.

If (i) the Depositary notifies the Company at any time that the Depositary is unwilling or unable to continue as depositary for the Global Notes and a successor depositary is not appointed within 90 days, (ii) the Depositary ceases to be registered as a clearing agency under the Exchange Act and a successor depositary is not appointed within 90 days or (iii) an Event of Default with respect to the Notes has occurred and is continuing and a beneficial owner of any Note requests that its beneficial interest therein be issued as a Physical Note, the Company shall execute, and the Trustee, upon receipt of an Officer's Certificate and a Company Order for the authentication and delivery of Notes, shall authenticate and deliver (x) in the case of clause (iii), a Physical Note to such beneficial owner in a principal amount equal to the principal amount of such Note corresponding to such beneficial owner's beneficial interest and (y) in the case of clause (i) or (ii), Physical Notes to each beneficial owner of the related Global Notes (or a portion thereof) in an aggregate principal amount equal to the aggregate principal amount of such Global Notes in exchange for such Global Notes, and upon delivery of the Global Notes to the Trustee such Global Notes shall be canceled.

Physical Notes issued in exchange for all or a part of the Global Note pursuant to this Section 2.05(c) shall be registered in such names and in such authorized denominations as the Depositary, pursuant to instructions from its direct or indirect participants or otherwise, or, in the case of clause (iii) of the immediately preceding paragraph, the relevant beneficial owner, shall instruct the Trustee. Upon execution and authentication, the Trustee shall deliver such Physical Notes to the Persons in whose names such Physical Notes are so registered.

At such time as all interests in a Global Note have been exchanged, canceled, repurchased or transferred, such Global Note shall be, upon receipt thereof, canceled by the Trustee in accordance with its customary procedures and existing instructions between the Depositary and the Custodian. At any time prior to such cancellation, if any interest in a Global Note is exchanged for Physical Notes, exchanged, canceled, repurchased or transferred to a transferee who receives Physical Notes therefor or any Physical Note is exchanged or transferred for part of such Global Note, the principal amount of such Global Note shall, in accordance with the standing procedures and instructions existing between the Depositary and the Custodian, be appropriately reduced or increased, as the case may be, and an endorsement shall be made on such Global Note, by the Trustee or the Custodian, at the direction of the Trustee, to reflect such reduction or increase.

None of the Company, the Parent, the Trustee or any agent of the Company, the Parent or the Trustee shall have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests of a Global Note or maintaining, supervising or reviewing any records relating to such beneficial ownership interests or otherwise for any act or failure to act by the Depositary.

(d) Any stock certificate representing Common Stock issued upon exchange of a Note shall bear a legend in substantially the following form (unless such Common Stock has been transferred pursuant to a registration statement that has become or been declared effective under the Securities Act and that continues to be effective at the time of such transfer, or

pursuant to the exemption from registration provided by Rule 144 or any similar provision then in force under the Securities Act, or such Common Stock has been issued upon exchange of a Note that has transferred pursuant to a registration statement that has become or been declared effective under the Securities Act and that continues to be effective at the time of such transfer, or pursuant to the exemption from registration provided by Rule 144 or any similar provision then in force under the Securities Act, or unless otherwise agreed by the Company and the Parent with written notice thereof to the Trustee and any transfer agent for the Common Stock):

This security has not been registered under the Securities Act of 1933, as amended (the “Securities Act”), and may not be offered, sold, pledged or otherwise transferred except in accordance with the following sentence. By its acquisition hereof or of a beneficial interest herein, the acquirer:

(1) represents that it and any account for which it is acting is a “qualified institutional buyer” (within the meaning of Rule 144A under the Securities Act) and that it exercises sole investment discretion with respect to each such account, and

(2) agrees for the benefit of MagnaChip Semiconductor S.A. (the “Company”) that it will not offer, sell, pledge or otherwise transfer this security or any beneficial interest herein prior to the date that is the later of (x) one year after the last original issue date of the series of notes upon the exchange of which this security was issued or such shorter period of time as permitted by Rule 144 under the Securities Act or any successor provision thereto and (y) such later date, if any, as may be required by applicable law, except:

(a) to the Company or any subsidiary thereof, or

(b) pursuant to a registration statement which has become effective under the Securities Act, or

(c) to a qualified institutional buyer in compliance with Rule 144A under the Securities Act, or

(d) pursuant to an exemption from registration provided by Rule 144 under the Securities Act or any other available exemption from the registration requirements of the Securities Act.

Prior to the registration of any transfer in accordance with clause (2)(d) above, the Company and the transfer agent for the Company’s common stock reserve the right to require the delivery of such legal opinions, certifications or other evidence as may reasonably be required in order to determine that the proposed transfer is being made in compliance with the Securities Act and applicable state securities laws. No representation is made as to the availability of any exemption from the registration requirements of the Securities Act.

Any such Common Stock (i) as to which such restrictions on transfer shall have expired in accordance with their terms, (ii) that has been transferred pursuant to a registration statement that has become or been declared effective under the Securities Act and that continues to be

effective at the time of such transfer or (iii) that has been sold pursuant to the exemption from registration provided by Rule 144 or any similar provision then in force under the Securities Act, may, upon surrender of the certificates representing such shares of Common Stock for exchange in accordance with the procedures of the transfer agent for the Common Stock, be exchanged for a new certificate or certificates for a like aggregate number of shares of Common Stock, which shall not bear the restrictive legend required by this Section 2.05(d).

(e) Any Note or Common Stock issued upon the conversion or exchange of a Note that is repurchased or owned by any Affiliate of the Company (or any Person who was an Affiliate of the Company at any time during the three months immediately preceding) may not be resold by such Affiliate (or such Person, as the case may be) unless registered under the Securities Act or resold pursuant to an exemption from the registration requirements of the Securities Act in a transaction that results in such Note or Common Stock, as the case may be, no longer being a "restricted security" (as defined under Rule 144). The Company shall cause any Note that is repurchased or owned by it to be surrendered to the Trustee for cancellation in accordance with Section 2.08.

Section 2.06. *Mutilated, Destroyed, Lost or Stolen Notes.* In case any Note shall become mutilated or be destroyed, lost or stolen, the Company in its discretion may execute, and upon its written request the Trustee or an authenticating agent appointed by the Trustee shall authenticate and deliver, a new Note, bearing a registration number not contemporaneously outstanding, in exchange and substitution for the mutilated Note, or in lieu of and in substitution for the Note so destroyed, lost or stolen. In every case the applicant for a substituted Note shall furnish to the Company, to the Parent, to the Trustee and, if applicable, to such authenticating agent such security or indemnity acceptable to the Trustee as may be required by them to save each of them harmless from any loss, liability, cost or expense caused by or connected with such substitution, and, in every case of destruction, loss or theft, the applicant shall also furnish to the Company, to the Parent, to the Trustee and, if applicable, to such authenticating agent evidence to their satisfaction of the destruction, loss or theft of such Note and of the ownership thereof.

The Trustee or such authenticating agent may authenticate any such substituted Note and deliver the same upon the receipt of such security or indemnity as the Trustee, the Company, the Parent and, if applicable, such authenticating agent may require. No service charge shall be imposed by the Company, the Parent, the Trustee, the Note Registrar, any co-Note Registrar or the Paying Agent upon the issuance of any substitute Note, but the Company may require a Holder to pay a sum sufficient to cover any documentary, stamp or similar issue or transfer tax required in connection therewith as a result of the name of the Holder of the new substitute Note being different from the name of the Holder of the old Note that became mutilated or was destroyed, lost or stolen. In case any Note that has matured or is about to mature or has been surrendered for required repurchase or is about to be exchanged in accordance with Article 14 shall become mutilated or be destroyed, lost or stolen, the Company may, in its sole discretion, instead of issuing a substitute Note, pay or authorize the payment of or exchange or authorize the exchange of the same (without surrender thereof except in the case of a mutilated Note), as the case may be, if the applicant for such payment or exchange shall furnish to the Company, to the Trustee and, if applicable, to such authenticating agent such security or indemnity as may be required by them to save each of them harmless for any loss, liability, cost or expense caused by or connected with such substitution, and, in every case of destruction, loss or theft, evidence satisfactory to the Company, the Trustee and, if applicable, any Paying Agent or Exchange Agent evidence of their satisfaction of the destruction, loss or theft of such Note and of the ownership thereof.

Every substitute Note issued pursuant to the provisions of this Section 2.06 by virtue of the fact that any Note is destroyed, lost or stolen shall constitute an additional contractual obligation of the Company and the Parent, whether or not the destroyed, lost or stolen Note shall be found at any time, and shall be entitled to all the benefits of (but shall be subject to all the limitations set forth in) this Indenture equally and proportionately with any and all other Notes duly issued hereunder. To the extent permitted by law, all Notes shall be held and owned upon the express condition that the foregoing provisions are exclusive with respect to the replacement, payment, exchange, redemption or repurchase of mutilated, destroyed, lost or stolen Notes and shall preclude any and all other rights or remedies notwithstanding any law or statute existing or hereafter enacted to the contrary with respect to the replacement, payment, exchange, redemption or repurchase of negotiable instruments or other securities without their surrender.

Section 2.07. *Temporary Notes.* Pending the preparation of Physical Notes, the Company may execute and the Trustee or an authenticating agent appointed by the Trustee shall, upon written request of the Company, authenticate and deliver temporary Notes (printed or lithographed). Temporary Notes shall be issuable in any authorized denomination, and substantially in the form of the Physical Notes but with such omissions, insertions and variations as may be appropriate for temporary Notes, all as may be determined by the Company. Every such temporary Note shall be executed by the Company and authenticated by the Trustee or such authenticating agent upon the same conditions and in substantially the same manner, and with the same effect, as the Physical Notes. Without unreasonable delay, the Company shall execute and deliver to the Trustee or such authenticating agent Physical Notes (other than any Global Note) and thereupon any or all temporary Notes (other than any Global Note) may be surrendered in exchange therefor, at each office or agency maintained by the Company pursuant to Section 4.02 and the Trustee or such authenticating agent shall authenticate and deliver in exchange for such temporary Notes an equal aggregate principal amount of Physical Notes. Such exchange shall be made by the Company at its own expense and without any charge therefor. Until so exchanged, the temporary Notes shall in all respects be entitled to the same benefits and subject to the same limitations under this Indenture as Physical Notes authenticated and delivered hereunder.

Section 2.08. *Cancellation of Notes Paid, Exchanged, Etc.* The Company shall cause all Notes surrendered for the purpose of payment, repurchase, registration of transfer or exchange of Notes for other Notes or in accordance with Article 14, if surrendered to any Person other than the Trustee (including any of the Company's or the Parent's agents, Subsidiaries or Affiliates), to be surrendered to the Trustee for cancellation. All Notes delivered to the Trustee shall be canceled promptly by it in accordance with its customary procedures, and no Notes shall be authenticated in exchange thereof except as expressly permitted by any of the provisions of this Indenture. The Trustee shall dispose of canceled Notes in accordance with its customary procedures.

Section 2.09. *CUSIP Numbers*. The Company in issuing the Notes may use “CUSIP” numbers (if then generally in use), and, if so, the Trustee shall use “CUSIP” numbers in all notices issued to Holders as a convenience to such Holders; *provided* that any such notice may state that no representation is made as to the correctness of such numbers either as printed on the Notes or on such notice and that reliance may be placed only on the other identification numbers printed on the Notes and any such notices shall not be affected by any defect in or omission of such numbers. The Company shall promptly notify the Trustee in writing of any change in the “CUSIP” numbers.

Section 2.10. *Additional Notes; Repurchases*. The Company may, without the consent of the Holders and notwithstanding Section 2.01, reopen this Indenture and issue additional Notes hereunder with the same terms as the Notes initially issued hereunder (other than differences in the issue price and interest accrued prior to the issue date of such additional Notes) in an unlimited aggregate principal amount; *provided* that such issuance is not otherwise prohibited by the terms of this Indenture; *provided further* that if any such additional Notes are not fungible with the Notes initially issued hereunder for U.S. federal income tax purposes, such additional Notes shall have a separate CUSIP number. Prior to the issuance of any such additional Notes, the Company shall deliver to the Trustee a Company Order, an Officer’s Certificate and an Opinion of Counsel, such Officer’s Certificate and Opinion of Counsel to cover such matters, in addition to those required by Section 18.05, as the Trustee shall reasonably request. In addition, the Company may, to the extent permitted by law, and directly or indirectly (regardless of whether such Notes are surrendered to the Company), repurchase Notes in the open market or otherwise, whether by the Company or its Subsidiaries or through a private or public tender or exchange offer or through counterparties to private agreements, including by cash-settled swaps or other derivatives. The Company shall cause any Notes so repurchased (other than Notes repurchased pursuant to cash-settled swaps or other derivatives) to be surrendered to the Trustee for cancellation in accordance with Section 2.08 and such Notes shall no longer be considered outstanding under this Indenture upon their repurchase.

ARTICLE 3 *SATISFACTION AND DISCHARGE*

Section 3.01. *Satisfaction and Discharge*. This Indenture shall upon request of the Company contained in an Officer’s Certificate cease to be of further effect, and the Trustee, at the expense of the Company, shall execute proper instruments acknowledging satisfaction and discharge of this Indenture, when (a) (i) all Notes theretofore authenticated and delivered (other than Notes which have been destroyed, lost or stolen and which have been replaced, paid or exchanged as provided in Section 2.06) have been delivered to the Trustee for cancellation; or (ii) the Company has deposited with the Trustee or delivered to Holders, as applicable, after the Notes have become due and payable, whether on the Maturity Date, any Fundamental Change Repurchase Date, upon exchange in accordance with Article 14 or otherwise, cash or cash and/or shares of Common Stock (or, if applicable, other Reference Property), solely to satisfy the Company’s Exchange Obligation, as applicable, sufficient, as determined by the Company and certified to the Trustee, to pay all of the outstanding Notes and all other sums due and payable under this Indenture by the Company; and (b) the Company has delivered to the Trustee an Officer’s Certificate and an Opinion of Counsel, each stating that all conditions precedent herein provided for relating to the satisfaction and discharge of this Indenture have been complied with. Notwithstanding the satisfaction and discharge of this Indenture, the obligations of the Company to the Trustee under Section 7.06 and the obligations of the Company under Section 4.09 shall survive.

ARTICLE 4
PARTICULAR COVENANTS OF THE COMPANY

Section 4.01. *Payment of Principal and Interest.* The Company covenants and agrees that it will cause to be paid the principal (including the Fundamental Change Repurchase Price, if applicable) of, and accrued and unpaid interest on, each of the Notes at the places, at the respective times and in the manner provided herein and in the Notes.

Section 4.02. *Maintenance of Office or Agency.* The Company will maintain in the Borough of Manhattan, The City of New York, an office or agency where the Notes may be surrendered for registration of transfer of Notes or exchange of Notes for other Notes or for presentation for payment or repurchase (“**Paying Agent**”) or for exchange in accordance with Article 14 (“**Exchange Agent**”) and where notices and demands to or upon the Company in respect of the Notes and this Indenture may be served. The Company will give prompt written notice to the Trustee of the location, and any change in the location, of such office or agency. If at any time the Company shall fail to maintain any such required office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the office of the Company set forth in Section 18.03.

The Company may also from time to time designate as co-Note Registrars one or more other offices or agencies where the Notes may be presented or surrendered for any or all such purposes and may from time to time rescind such designations; *provided* that no such designation or rescission shall in any manner relieve the Company of its obligation to maintain an office or agency in the Borough of Manhattan, The City of New York, for such purposes. The Company will give prompt written notice to the Trustee of any such designation or rescission and of any change in the location of any such other office or agency. The terms “**Paying Agent**” and “**Exchange Agent**” include any such additional or other offices or agencies, as applicable.

The Company hereby initially designates the Trustee as the Paying Agent, Note Registrar, Custodian and Exchange Agent and the Corporate Trust Office as the office or agency in the Borough of Manhattan, The City of New York, where Physical Notes may be surrendered for registration of transfer of Notes or exchange of Notes for other Notes or for presentation for payment or repurchase or for exchange in accordance with Article 14 and where notices and demands to or upon the Company in respect of the Notes and this Indenture may be served.

Section 4.03. *Appointments to Fill Vacancies in Trustee’s Office.* The Company, whenever necessary to avoid or fill a vacancy in the office of Trustee, will appoint, in the manner provided in Section 7.09, a Trustee, so that there shall at all times be a Trustee hereunder.

Section 4.04. *Provisions as to Paying Agent.* (a) If the Company shall appoint a Paying Agent other than the Trustee, the Company will cause such Paying Agent to execute and deliver to the Trustee an instrument in which such agent shall agree with the Trustee, subject to the provisions of this Section 4.04:

(1) that it will hold all sums held by it as such agent for the payment of the principal (including the Fundamental Change Repurchase Price, if applicable) of, and accrued and unpaid interest on, the Notes in trust for the benefit of the Holders of the Notes;

(2) that it will give the Trustee prompt notice of any failure by the Company to make any payment of the principal (including the Fundamental Change Repurchase Price, if applicable) of, and accrued and unpaid interest on, the Notes when the same shall be due and payable; and

(3) that at any time during the continuance of an Event of Default, upon request of the Trustee, it will forthwith pay to the Trustee all sums so held in trust.

The Company shall, on or before each due date of the principal (including the Fundamental Change Repurchase Price, if applicable) of, or accrued and unpaid interest on, the Notes, deposit with the Paying Agent a sum sufficient to pay such principal (including the Fundamental Change Repurchase Price, if applicable) or accrued and unpaid interest, and (unless such Paying Agent is the Trustee) the Company will promptly notify the Trustee in writing of any failure to take such action; *provided* that if such deposit is made on the due date, such deposit must be received by the Paying Agent by 12:00 p.m., New York City time, on such date.

(b) If the Company shall act as its own Paying Agent, it will, on or before each due date of the principal (including the Fundamental Change Repurchase Price, if applicable) of, and accrued and unpaid interest on, the Notes, set aside, segregate and hold in trust for the benefit of the Holders of the Notes a sum sufficient to pay such principal (including the Fundamental Change Repurchase Price, if applicable) and accrued and unpaid interest so becoming due and will promptly notify the Trustee in writing of any failure to take such action and of any failure by the Company to make any payment of the principal (including the Fundamental Change Repurchase Price, if applicable) of, or accrued and unpaid interest on, the Notes when the same shall become due and payable.

(c) Anything in this Section 4.04 to the contrary notwithstanding, the Company may, at any time, for the purpose of obtaining a satisfaction and discharge of this Indenture, or for any other reason, pay, cause to be paid or deliver to the Trustee all sums or amounts held in trust by the Company or any Paying Agent hereunder as required by this Section 4.04, such sums or amounts to be held by the Trustee upon the trusts herein contained and upon such payment or delivery by the Company or any Paying Agent to the Trustee, the Company or such Paying Agent shall be released from all further liability but only with respect to such sums or amounts.

(d) Subject to applicable escheatment laws, any money and shares of Common Stock deposited with the Trustee or any Paying Agent, or then held by the Company, in trust for the payment of the principal (including the Fundamental Change Repurchase Price, if applicable) of,

accrued and unpaid interest on, and the consideration due upon exchange of, any Note, and remaining unclaimed for two years after such principal (including the Fundamental Change Repurchase Price, if applicable), interest or consideration due upon exchange has become due and payable shall be paid to the Company on request of the Company contained in an Officer's Certificate, or (if then held by the Company) shall be discharged from such trust; and the Holder of such Note shall thereafter, as an unsecured general creditor, look only to the Company for payment thereof, and all liability of the Trustee or such Paying Agent with respect to such trust money and shares of Common Stock, and all liability of the Company as trustee thereof, shall thereupon cease.

Section 4.05. *Existence.* Subject to Article 11, each of the Company and the Parent shall do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence.

Section 4.06. *Rule 144A Information Requirement and Annual Reports.* (a) At any time the Parent is not subject to Section 13 or 15(d) of the Exchange Act, the Company shall, so long as any of the Notes or any shares of Common Stock issuable upon exchange thereof shall, at such time, constitute "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, promptly provide to the Trustee and, upon written request, provide to any Holder, beneficial owner or prospective purchaser of such Notes or any shares of Common Stock issuable upon exchange of such Notes, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act to facilitate the resale of such Notes or shares of Common Stock pursuant to Rule 144A.

(b) The Company shall file with the Trustee, within 30 days after the same are required to be filed with the Commission, copies of any documents or reports that the Parent is required to file with the Commission pursuant to Section 13 or Section 15(d) of the Exchange Act (giving effect to any grace period provided by Rule 12b-25 under the Exchange Act). Any such document or report that the Parent files with the Commission via the Commission's EDGAR system shall be deemed to be filed with the Trustee for purposes of this Section 4.06(b) at the time such documents are filed via the EDGAR system; *provided, however,* that the Trustee shall have no responsibility whatsoever to determine if such filing has occurred.

(c) Delivery of the reports and documents described in subsection (b) above to the Trustee is for informational purposes only, and the Trustee's receipt of such shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Company's compliance with any of its covenants hereunder (as to which the Trustee is entitled to conclusively rely on an Officer's Certificate).

(d) (i) If, at any time during the six-month period beginning on, and including, the date that is six months after the last date of original issuance of the Notes, (x) the Company fails to timely file any report that it is required to file with the Commission pursuant to Section 13 or 15(d) of the Exchange Act, as applicable (after giving effect to all applicable grace periods thereunder and other than reports on Form 8-K), or (y) the Notes are not otherwise freely tradable pursuant to Rule 144 by Holders other than the Company's Affiliates or Holders that were the Company's Affiliates at any time during the three months immediately preceding (as a result of restrictions pursuant to U.S. securities laws or the terms of this Indenture or the Notes),

or (ii) if, and for so long as, the restrictive legend on the Notes specified in Section 2.05(c) has not been removed, the Notes are assigned a restricted CUSIP or the Notes are not otherwise freely tradable pursuant to Rule 144 by Holders other than the Company's Affiliates or Holders that were the Company's Affiliates at any time during the three months immediately preceding (without restrictions pursuant to U.S. securities laws or the terms of this Indenture or the Notes) as of the 375th day after the last date of original issuance of the Notes (each such event referred to in clauses (i) and (ii), a "*Restricted Transfer Default*"), the Company shall pay Additional Interest on the Notes at the rate per annum of 0.25% of the principal amount of the Notes outstanding for each day during the first 90 days for which a Restricted Transfer Default has occurred and is continuing and thereafter at the rate per annum of 0.50% of the principal amount of the Notes outstanding during each such day that a Restricted Transfer Default has occurred and is continuing.

(e) Additional Interest will be payable in arrears on each Interest Payment Date following accrual in the same manner as regular interest on the Notes.

(f) Subject to the immediately succeeding sentence, the Additional Interest that is payable in accordance with Section 4.06(d) shall be in addition to, and not in lieu of, any Additional Interest that may be payable as a result of the Company's election pursuant to Section 6.03. However, in no event shall any Additional Interest that may accrue as a result of the Company's failure to comply with its obligations pursuant to Section 4.06(d), together with any Additional Interest payable at the Company's election pursuant to Section 6.03 as the remedy for an Event of Default relating to its failure to comply with its obligations as set forth in Section 4.06(b), accrue at a rate in excess of 0.50% per annum, regardless of the number of events or circumstances giving rise to the requirement to pay such Additional Interest.

(g) If Additional Interest is payable by the Company pursuant to Section 4.06(d), the Company shall deliver to the Trustee an Officers' Certificate to that effect stating (i) the amount of such Additional Interest that is payable and (ii) the date on which such Additional Interest is payable. Unless and until a Responsible Officer of the Trustee receives at the Corporate Trust Office such a certificate, the Trustee may assume without inquiry that no such Additional Interest is payable. If the Company has paid Additional Interest directly to the Persons entitled to it, the Company shall deliver to the Trustee an Officers' Certificate setting forth the particulars of such payment.

Section 4.07. *Stay, Extension and Usury Laws.* Neither the Company nor the Parent (to the extent it may lawfully do so) shall at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay, extension or usury law or other law that would prohibit or forgive the Company or the Guarantor from paying all or a portion of the principal of or interest on the Notes as contemplated herein, wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Indenture; and the Company and the Parent (to the extent that they may lawfully do so) hereby expressly waive all benefit or advantage of any such law, and shall not hinder, delay or impede the execution of any power herein granted to the Trustee, but shall suffer and permit the execution of every such power as though no such law had been enacted.

Section 4.08. *Compliance Certificate; Statements as to Defaults.* The Company shall deliver to the Trustee within 120 days after the end of each fiscal year of the Company (beginning with the fiscal year ending on December 31, 2017) an Officer's Certificate stating (1) that a review has been conducted of the activities of the Company and of the Parent and its Subsidiaries and their respective performance under this Indenture and (2) that the Company and the Parent have fulfilled all obligations under this Indenture (such compliance to be determined without regard to any period of grace or requirement of notice provided under this Indenture) or specifying any Event of Default and the nature thereof.

In addition, the Company shall deliver to the Trustee within 30 days after the occurrence of any Event of Default or Default, an Officer's Certificate setting forth the details of such Event of Default or Default, its status and the action that the Company is taking or proposing to take in respect thereof.

Section 4.09. *Additional Amounts.* (a) All payments and deliveries made by or on behalf of the Company under or with respect to the Notes or any of the Guarantors under or with respect to its Note Guarantee, including, but not limited to, payments of principal (including, if applicable, upon a Fundamental Change), payments of interest and payments of cash and/or deliveries of Common Stock or other Reference Property, if any, upon exchange, will be made free and clear of and without withholding or deduction for, or on account of, any present or future taxes, duties, levies, imposts, assessments or other governmental charges (including, without limitation, penalties and interest and other similar liabilities related thereto) ("**Taxes**") unless the withholding or deduction of such Taxes is then required by law. If any such deduction or withholding for, or on account of, any Taxes imposed or levied by or on behalf of any jurisdiction in which the Company or any Guarantor (including any successor entity), is then incorporated, organized, engaged in business or resident for tax purposes, or any political subdivision or governmental authority thereof or therein having power to tax or any jurisdiction from or through which payment or delivery is made by or on behalf of the Company or any Guarantor (each, a "**Tax Jurisdiction**"), will at any time be required to be made from any payments or deliveries made by or on behalf of the Company under or with respect to the Notes or any of the Guarantors with respect to any Note Guarantee, including, without limitation, payments of principal, redemption price, purchase price, interest or premium, the Company or the relevant Guarantor, as applicable, will pay such additional amounts (the "**Additional Amounts**") as may be necessary in order that the net amounts received in respect of such payments or deliveries (including Additional Amounts) after such withholding or deduction will equal the respective amounts of cash/Common Stock or that would have been received in respect of such payments or deliveries in the absence of such withholding or deduction; provided, however, that no Additional Amounts will be payable with respect to:

- (i) any Taxes to the extent such Taxes would not have been imposed but for the Holder or beneficial owner of the Notes having a present or former connection with the relevant Tax Jurisdiction in which such Taxes are imposed other than by the mere acquisition or holding of any Note or any Note Guarantee or the enforcement or receipt of payment under or in respect of any Note or any Note Guarantee;

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- (ii) any Taxes to the extent such Taxes were imposed or withheld as a result of the failure of the Holder or beneficial owner of the Notes to comply with any written request, made to that Holder or beneficial owner at least 90 days before any such withholding or deduction would be payable, by the Company or any of the Guarantors, to make a valid declaration of non-residence or other similar claim for exemption such Holder or beneficial owner is legally entitled to make, if the making of the declaration or claim is required or imposed by statute, treaty, regulation, ruling or administrative practice of the relevant Tax Jurisdiction as a precondition to an exemption from, or reduction in, such Taxes;
 - (iii) any Taxes to the extent such Taxes are imposed or withheld as a result of the presentation of any Note for payment (where presentation is required) more than 30 days after the relevant payment is first made available for payment to the Holder (except to the extent that the Holder would have been entitled to Additional Amounts had the Note been presented on the last day of such 30 day period);
 - (iv) any estate, inheritance, gift, sale, transfer, personal property, or similar Taxes, except as described below or as otherwise provided in this Indenture;
 - (v) any Taxes that are imposed or withheld pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended (the "Code"), as of the Issue Date (or any amended or successor version of such sections that is substantively comparable and not more onerous to comply with), any regulations promulgated thereunder, any official interpretations thereof, any similar law or regulation adopted pursuant to an intergovernmental agreement between a non-U.S. jurisdiction and the United States with respect to the foregoing or any agreements entered into pursuant to Section 1471(b)(1) of the Code;
 - (vi) any Taxes imposed by the United States or any political subdivision thereof or therein; or
 - (vii) any combination of items (i) through (vi) above.

(b) In addition to their obligations under Section 4.09(a), the Company and the Guarantors will pay and indemnify the Holder or beneficial owner for any present or future stamp, issue, registration, transfer, court or documentary Taxes, or any other excise or property Taxes, charges or similar levies or Taxes levied by any jurisdiction on the execution, delivery, registration or enforcement of the Notes, any Note Guarantee (other than on or in connection with a transfer of the Notes that occurs after the initial sale by the Initial Purchaser) or any other document or instrument referred to therein, or the receipt of any payments with respect thereto (limited, solely in the case of Taxes attributable to the receipt of any payments with respect thereto, to any such Taxes imposed that are not excluded from Additional Amounts as described above).

(c) If the Company or any Guarantor, as the case may be, becomes obligated to pay Additional Amounts with respect to any payment or delivery under or with respect to the Notes or any Note Guarantee, the Company or the relevant Guarantor, as the case may be, will deliver to the Trustee on a date at least 30 days prior to the date of payment (unless the obligation to pay Additional Amounts arises after the 30th day prior to that payment date, in which case the Company or the relevant Guarantor shall notify the Trustee promptly thereafter) an Officer's Certificate stating the fact that Additional Amounts will be payable and the amount estimated to be so payable. The Officer's Certificate must also set forth any other information reasonably necessary to enable the Paying Agent to pay Additional Amounts on the relevant payment date. The Trustee shall be entitled to rely solely on such Officer's Certificate as conclusive proof that such payments are necessary. The Company or the relevant Guarantor will provide the Trustee with documentation reasonably satisfactory to the Trustee evidencing the payment of Additional Amounts.

(d) The Company or the relevant Guarantor will make all withholdings and deductions required by law and will timely remit the full amount deducted or withheld to the relevant Tax authority in accordance with applicable law. The Company or the relevant Guarantor will use its reasonable efforts to obtain Tax receipts from each Tax authority evidencing the payment of any Taxes so deducted or withheld. The Company or the relevant Guarantor will furnish to the holders, as soon as practicable after the date the payment of any Taxes so deducted or withheld is made, certified copies of Tax receipts evidencing payment by the Company or a Guarantor, as the case may be, or if, notwithstanding such entity's efforts to obtain receipts, receipts are not obtained, other evidence of payments by such entity.

(e) References in this Indenture to the payment of cash and/or delivery of Common Stock or other Reference Property, if any, upon exchange of any Note or the payment of principal of (including upon a Fundamental Change, if applicable) and interest on, any Note or any other amount payable or deliverable with respect to such Note or any Note Guarantee, such mention shall be deemed to include the payment of Additional Amounts to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

(f) This Section 4.09 shall survive any termination or discharge of this Indenture, any transfer by a Holder or beneficial owner of its Notes, and will apply, *mutatis mutandis*, to any jurisdiction in which any successor Person to the Company or any Guarantor is then incorporated, organized, engaged in business or resident for tax purposes or any jurisdiction from or through which any payment under, or with respect to, the Notes (or any Note Guarantee) is made by, or on behalf of, such Person, and any political subdivision or taxing authority or agency thereof or therein having the power to tax.

Section 4.10. *Limitation on Indebtedness.* (a) The Parent will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur, issue, assume, Guarantee or otherwise become directly or indirectly liable, contingently or otherwise, with respect to (collectively, "**incur**") any Indebtedness (including Acquired Debt), and the Parent will not issue any Disqualified Stock and will not permit any of its Restricted Subsidiaries to issue any shares of preferred stock; *provided, however*, that the Parent and the Company may incur Indebtedness (including Acquired Debt) or issue Disqualified Stock, if the Fixed Charge Coverage Ratio for the Parent's most recently ended four full fiscal quarters for which internal financial statements are available immediately preceding the date on which such additional Indebtedness is incurred or such Disqualified Stock is issued, as the case may be, would have been at least 2.0 to 1.0, in each case determined on a pro forma basis (including a pro forma application of the net proceeds therefrom), as if the additional Indebtedness had been incurred or the Disqualified Stock had been issued, as the case may be, at the beginning of such four-quarter period.

(b) Nothing in this Indenture shall prohibit the incurrence of any of the following items of Indebtedness (collectively, “**Permitted Debt**”):

(1) the incurrence by the Parent and any of its Restricted Subsidiaries of additional Indebtedness and letters of credit under Credit Facilities in an aggregate principal amount at any one time outstanding under this clause (1) (with letters of credit being deemed to have a principal amount equal to the maximum potential liability of the Parent and its Restricted Subsidiaries thereunder) not to exceed (as of any date of incurrence of Indebtedness under the provision described in this clause (1) and after giving pro forma effect to such incurrence and the application of the net proceeds therefrom) \$50.0 million;

(2) the incurrence by the Parent and its Restricted Subsidiaries of the Existing Indebtedness;

(3) the incurrence by the Company of Indebtedness represented by the Notes to be issued on the Issue Date and any additional Notes issued if the Initial Purchasers exercise their option to purchase additional Notes in full as set forth in the Purchase Agreement;

(4) the incurrence by the Parent and the Restricted Subsidiaries of the Parent (other than the Company) of Guarantees, if any, in respect of the Notes issued on the Issue Date and any additional Notes issued if the Initial Purchasers exercise their option to purchase additional Notes in full as set forth in the Purchase Agreement;

(5) the incurrence by the Parent or any of its Restricted Subsidiaries, as applicable, of Permitted Refinancing Indebtedness in exchange for, or the net proceeds of which are used to renew, refund, refinance, replace, defease or discharge any Indebtedness (other than intercompany Indebtedness) that was permitted by this Indenture to be incurred under Section 4.10(a) or clauses (2), (3), (4), (5) or (16) of this Section 4.10(b);

(6) the incurrence by the Parent or any of its Restricted Subsidiaries of intercompany Indebtedness between or among the Parent and any of its Restricted Subsidiaries; *provided, however*, that:

(A) any such Indebtedness incurred by the Parent or the Company must be unsecured and expressly subordinated to the prior payment in full in cash of all Obligations then due with respect to the Notes; and

(B) (i) any subsequent issuance or transfer of Equity Interests that results in any such Indebtedness being held by a Person other than the Parent or a Restricted Subsidiary of the Parent and (ii) any sale or other transfer of any such Indebtedness to a Person that is not either the Parent or a Restricted Subsidiary of the Parent, will be deemed, in each case, to constitute an incurrence of such Indebtedness by the Parent or such Restricted Subsidiary, as the case may be, that was not permitted by this clause (6);

(7) the issuance by any of the Parent's Restricted Subsidiaries to the Parent or to any of its Restricted Subsidiaries of shares of preferred stock; *provided, however, that:*

(A) any subsequent issuance or transfer of Equity Interests that results in any such preferred stock being held by a Person other than the Parent or a Restricted Subsidiary of the Parent; and

(B) any sale or other transfer of any such preferred stock to a Person that is not either the Parent or a Restricted Subsidiary of the Parent, will be deemed, in each case, to constitute an issuance of such preferred stock by such Restricted Subsidiary that was not permitted by this clause (7);

(8) the incurrence by the Parent or any of its Restricted Subsidiaries of Hedging Obligations in the ordinary course of business;

(9) the guarantee by the Parent or a Restricted Subsidiary of Indebtedness of the Parent or a Restricted Subsidiary of the Parent (other than the guarantee of the Existing Notes by the Company or Permitted Refinancing Indebtedness in respect thereof) to the extent that the guaranteed Indebtedness was permitted to be incurred by another provision of this Section 4.10; *provided* that if the Indebtedness being guaranteed is subordinated or *pari passu* with the Notes, then the guarantee must be subordinated or *pari passu*, as applicable, to the same extent as the Indebtedness guaranteed;

(10) the incurrence by the Parent or any of its Restricted Subsidiaries of Indebtedness in respect of workers' compensation claims, health, disability or other employee benefits or property, casualty or liability insurance, self-insurance obligations and bankers' acceptances in the ordinary course of business;

(11) the incurrence by the Parent or any of its Restricted Subsidiaries of Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument inadvertently drawn against insufficient funds, so long as such Indebtedness is extinguished promptly in accordance with customary practices;

(12) the incurrence of Indebtedness by the Parent or any of its Restricted Subsidiaries in the form of performance bonds, completion guarantees and surety or appeal bonds and similar obligations entered into by the Parent or any of its Restricted Subsidiaries in the ordinary course of their business;

(13) Indebtedness of the Parent issued to any of the Parent's or any of its Restricted Subsidiaries' directors, employees, officers or consultants in connection with the redemption or purchase of Capital Stock that, by its terms or by operation of law, is subordinated to the Notes, is not secured by any of the assets of the Parent or the Restricted Subsidiaries and does not require cash payments prior to the Stated Maturity of the Notes, in an aggregate principal amount which, when added with the amount of Indebtedness incurred under this clause (13) and then outstanding, does not exceed \$5.0 million at any one time outstanding;

(14) the incurrence of Indebtedness by the Parent or any of its Restricted Subsidiaries arising from agreements of the Parent or any of its Restricted Subsidiaries providing for adjustment of purchase price or other similar obligations, in each case, incurred or assumed in connection with the acquisition or disposition of any business, assets or a Restricted Subsidiary of the Parent;

(15) Indebtedness incurred by the Parent or any of its Restricted Subsidiaries constituting reimbursement obligations under letters of credit issued in the ordinary course of business, including, without limitation, letters of credit to procure raw materials or relating to workers' compensation claims or self-insurance, or other Indebtedness relating to reimbursement-type obligations regarding workers' compensation claims; and

(16) the incurrence by the Parent or any of its Restricted Subsidiaries of additional Indebtedness, including Indebtedness represented by Capital Lease Obligations, mortgage financings or purchase money obligations, or Disqualified Stock, in an aggregate principal amount (or accreted value, as applicable) at any time outstanding, including all Permitted Refinancing Indebtedness incurred to renew, refund, refinance, replace, defease or discharge any Indebtedness incurred pursuant to this clause (16), not to exceed the greater of (a) \$50.0 million and (b) 6.0% of Total Assets.

Neither the Parent nor the Company will incur any Indebtedness (including Permitted Debt) that is contractually subordinated in right of payment to any other Indebtedness of the Parent or the Company, as the case may be, unless such Indebtedness is also contractually subordinated in right of payment to the Notes on substantially identical terms; *provided, however*, that no Indebtedness will be deemed to be contractually subordinated in right of payment to any of the other Indebtedness of the Parent or the Company solely by virtue of being unsecured or by virtue of being secured on a junior priority basis.

For purposes of determining compliance with this Section 4.10, (a) in the event that an item of Indebtedness meets the criteria of more than one of the categories of Permitted Debt described in clauses (1) through (16) above, or is entitled to be incurred pursuant to Section 4.10(a), the Company will be permitted, in its sole discretion, to classify or divide such item of Indebtedness on the date of its incurrence, or later reclassify or divide all or a portion of such item of Indebtedness, in any manner that complies with this Section 4.10 and (b) at the time of incurrence, classification or reclassification, the Company will be entitled to divide an item of Indebtedness in more than one of the categories of Indebtedness described in Section 4.10(a) or clauses (1) through (16) of Section 4.10(b) (or any portion thereof) without giving pro forma effect to the Indebtedness incurred, classified or reclassified pursuant to any other clause or paragraph of this Section 4.10 (or any portion thereof) when calculating the amount of Indebtedness that may be incurred, classified or reclassified pursuant to any such clause or paragraph (or any portion thereof) at such time; *provided* in each case that Indebtedness under Credit Facilities outstanding on the Issue Date will be deemed to have been incurred pursuant to clause (1) of Permitted Debt. The accrual of interest or preferred stock dividends, the accretion or amortization of original issue discount, the payment of interest on any Indebtedness in the

form of additional Indebtedness with the same terms, the reclassification of preferred stock as Indebtedness due to a change in accounting principles, and the payment of dividends on preferred stock or Disqualified Stock in the form of additional shares of the same class of preferred stock or Disqualified Stock will not be deemed to be an incurrence of Indebtedness or an issuance of preferred stock or Disqualified Stock for purposes of this Section 4.10; *provided*, in each such case, that the amount thereof is included in Fixed Charges of the Parent as accrued. For purposes of determining compliance with any U.S. dollar-denominated restriction on the incurrence of Indebtedness, the U.S. dollar-equivalent principal amount of Indebtedness denominated in a foreign currency shall be utilized, calculated based on the relevant currency exchange rate in effect on the date such Indebtedness was incurred. For the avoidance of doubt, for the purpose of determining the aggregate amount of a U.S. dollar-equivalent principal amount of Indebtedness denominated in a foreign currency outstanding at any one time, the relevant currency exchange rate in effect on the date each such prior incurrence of Indebtedness denominated in a foreign currency shall have occurred shall be used, and subsequent fluctuations in exchange rates or currency values shall be disregarded for determining the aggregate amount outstanding until such Indebtedness is repaid or otherwise retired. Notwithstanding any other provision of this Section 4.10, the maximum amount of Indebtedness that the Parent or any Restricted Subsidiary may incur pursuant to this Section 4.10 shall not be deemed to be exceeded solely as a result of fluctuations in exchange rates or currency values. Guarantees of, or obligations in respect of letters of credit relating to, Indebtedness which is otherwise included in the determination of a particular amount of Indebtedness shall not be included in the determination of such amount of Indebtedness; provided that the incurrence of the Indebtedness represented by such guarantee or letter of credit, as the case may be, was in compliance with this Section 4.10.

The amount of any Indebtedness outstanding as of any date will be:

- (1) the accreted value of the Indebtedness, in the case of any Indebtedness issued with original issue discount;
- (2) the principal amount of the Indebtedness, in the case of any other Indebtedness; and
- (3) in respect of Indebtedness of another Person secured by a Lien on the assets of the specified Person, the lesser of:
 - (A) the Fair Market Value of such assets at the date of determination; and
 - (B) the amount of the Indebtedness of the other Person.

Section 4.11. *Limitation on Liens.* (a) The Parent will not, and will not permit any of its Restricted Subsidiaries to, create, incur, assume or otherwise cause or suffer to exist or become effective any Lien of any kind (other than Permitted Liens) securing Indebtedness or trade payables upon any of its or their property or assets, now owned or hereafter acquired, unless all payments due under this Indenture and the Notes are secured on an equal and ratable basis with the obligations so secured until such time as such obligations are no longer secured by a Lien.

(b) For purposes of determining compliance with this Section 4.11, (A) a Lien securing an item of Indebtedness need not be permitted solely by reference to one category of permitted Liens (or any portion thereof) described in the definition of “Permitted Liens” or pursuant to Section 4.11(a) but may be permitted in part under any combination thereof and (B) if a Lien securing an item of Indebtedness, Disqualified Stock or preferred stock (or any portion thereof) meets the criteria of one or more of the categories of permitted Liens (or any portion thereof) described in the definition of “Permitted Liens” or pursuant to Section 4.11(a), the Company may, in its sole discretion, classify or reclassify, or later divide, classify or reclassify (as if incurred at such later time), such Lien securing such item of Indebtedness (or any portion thereof) in any manner that complies with this Section 4.11 and will be entitled to only include the amount and type of such Lien or such item of Indebtedness secured by such Lien (or any portion thereof) in one of the categories (or any portion thereof) described in the definition of “Permitted Liens” or pursuant to Section 4.11(a).

(c) With respect to any Lien securing Indebtedness that was permitted to secure such Indebtedness at the time of the incurrence of such Indebtedness, such Lien shall also be permitted to secure any Increased Amount of such Indebtedness. The “**Increased Amount**” of any Indebtedness shall mean any increase in the amount of such Indebtedness in connection with any accrual of interest, the accretion of accreted value, the amortization of original issue discount, the payment of interest in the form of additional Indebtedness with the same terms, the payment of dividends on preferred stock in the form of additional shares of preferred stock of the same class and accretion of original issue discount or liquidation preference.

Section 4.12. *Limitation on Restricted Payments.* (a) The Parent will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly:

- (I) declare or pay any dividend or make any other payment or distribution on account of the Parent’s or any of its Restricted Subsidiaries’ Equity Interests (including, without limitation, any payment in connection with any merger or consolidation involving the Parent or any of its Restricted Subsidiaries), other than dividends or distributions payable in the Parent’s Qualifying Equity Interests and other than dividends or distributions payable to the Parent or its Restricted Subsidiaries;
- (II) purchase, redeem or otherwise acquire or retire for value (including, without limitation, in connection with any merger or consolidation involving the Parent) any of its Equity Interests;
- (III) make any payment on or with respect to, or purchase, redeem, defease or otherwise acquire or retire for value any of the Parent’s Indebtedness that is contractually subordinated to the Notes (excluding any intercompany Indebtedness between or among the Parent and any of its Restricted Subsidiaries) (collectively, “**Subordinated Debt**”), except a payment of interest or principal at the Stated Maturity thereof; or
- (IV) make any Restricted Investment,

(all such payments and other actions set forth in these clauses (I) through (IV) above being collectively referred to as “**Restricted Payments**”) unless, at the time of and after giving effect to such Restricted Payment:

(1) no Default or Event of Default has occurred and is continuing or would occur as a consequence of such Restricted Payment;

(2) the Parent would, at the time of such Restricted Payment and after giving pro forma effect thereto as if such Restricted Payment had been made at the beginning of the applicable four-quarter period, have been permitted to incur at least \$1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in Section 4.10(a); and

(3) such Restricted Payment, together with the aggregate amount of all other Restricted Payments made by the Parent and its Restricted Subsidiaries since the Issue Date, (excluding Restricted Payments permitted by clauses (2) through (12) of Section 4.12(b)), is less than the sum, without duplication, of:

(A) 50% of the Parent’s Consolidated Net Income for the period (taken as one accounting period) from the beginning of the first fiscal quarter commencing after the Issue Date to the end of the Parent’s most recently ended fiscal quarter for which internal financial statements are available at the time of such Restricted Payment (or, if such Consolidated Net Income for such period is a deficit, less 100% of such deficit); *plus*

(B) 100% of the aggregate cash proceeds, including cash and Cash Equivalents, and the Fair Market Value of assets, received by the Parent since the Issue Date as a contribution to its common equity capital or from the issue or sale of the Parent’s Qualifying Equity Interests or from the issue or sale of the Parent’s convertible or exchangeable Disqualified Stock or the Parent’s convertible or exchangeable debt securities, in each case that have been converted into or exchanged for Qualifying Equity Interests (other than Qualifying Equity Interests and convertible or exchangeable Disqualified Stock or debt securities sold to any of the Parent’s Subsidiaries); *plus*

(C) to the extent that any Restricted Investment that was made after the Issue Date is (a) sold for cash or otherwise cancelled, liquidated or repaid for cash, or (b) made in an entity that subsequently becomes a Restricted Subsidiary of the Parent, the initial amount of such Restricted Investment (or, if less, the amount of cash received upon repayment or sale); *plus*

(D) to the extent that any Unrestricted Subsidiary of the Parent that was designated as such after the Issue Date is redesignated as a Restricted Subsidiary after the Issue Date, the lesser of (i) the Fair Market Value of the Parent’s Restricted Investment in such Subsidiary as of the date of such redesignation or (ii) such Fair Market Value as of the date on which such Subsidiary was originally designated as an Unrestricted Subsidiary after the Issue Date; *plus*

(E) 100% of any dividends received in cash by the Parent or a Restricted Subsidiary after the Issue Date from an Unrestricted Subsidiary, to the extent that such dividends were not otherwise included in the Consolidated Net Income of the Parent for such period.

(b) The provisions of Section 4.12(a) will not prohibit:

(1) the payment of any dividend or the consummation of any irrevocable redemption within 60 days after the date of declaration of the dividend or giving of the redemption notice, as the case may be, if at the date of declaration or notice, the dividend or redemption payment would have complied with the provisions of this Indenture;

(2) the making of any Restricted Payment in exchange for, or out of or with the net cash proceeds of the substantially concurrent sale (other than to a Subsidiary of the Parent) of, Equity Interests of the Parent or from the substantially concurrent contribution of common equity capital to the Parent; *provided* that the amount of any such net cash proceeds that are utilized for any such Restricted Payment will not be considered to be net proceeds of Qualifying Equity Interests for purposes of clause 3(B) of Section 4.12(a);

(3) the payment of any dividend (or, in the case of any partnership or limited liability company, any similar distribution) by a Restricted Subsidiary to the holders of its Equity Interests on a *pro rata* basis;

(4) the repurchase, redemption, defeasance or other acquisition or retirement for value of the Subordinated Debt of the Parent with the net cash proceeds from a substantially concurrent incurrence of Permitted Refinancing Indebtedness;

(5) so long as no Default or Event of Default has occurred and is continuing, the repurchase, redemption or other acquisition or retirement for value of any Equity Interests of the Parent or any Restricted Subsidiary of the Parent held by any current or former officer, director or employee of the Parent or any of its Restricted Subsidiaries pursuant to any employment agreement, equity subscription agreement, stock option agreement, stockholders' agreement or similar agreement; *provided* that the aggregate price paid for all such repurchased, redeemed, acquired or retired Equity Interests may not exceed \$10.0 million in any twelve-month period plus the amount of cash proceeds from any key man life insurance received during such twelve-month period; *provided, further*, that such amount may be increased by an amount not to exceed the cash proceeds from the sale of Equity Interests of the Parent to current or former members of management, directors, managers or consultants of the Parent or any of its Subsidiaries that occurs after the Issue Date, to the extent the cash proceeds from the sale of such Equity Interests have not otherwise been applied to the making of Restricted Payments by virtue of clause 3(B) of Section 4.12(a);

(6) the repurchase of Equity Interests deemed to occur upon (A) the exercise of stock options or warrants to the extent such Equity Interests represent a portion of the exercise price of those stock options or warrants, (B) the withholding of a portion of the Equity Interests granted or awarded to a current or former officer, director, employee or consultant to pay for the taxes payable by such Person upon such grant or award (or upon vesting thereof), or (C) the cancellation of stock options, warrants or other Equity Interest awards;

(7) so long as no Default or Event of Default has occurred and is continuing, the declaration and payment of regularly scheduled or accrued dividends to holders of any class or series of Disqualified Stock of the Parent or any preferred stock of any Restricted Subsidiary of the Parent issued on or after the Issue Date in accordance with the Fixed Charge Coverage Ratio test described in Section 4.10(a);

(8) payments of cash, dividends, distributions, advances or other Restricted Payments by the Parent or any of its Restricted Subsidiaries to allow the payment of cash in lieu of the issuance of fractional shares upon (i) the exercise of options or warrants or (ii) the conversion or exchange of Capital Stock of any such Person;

(9) upon the occurrence of a Fundamental Change and within 60 days after the completion of the offer to repurchase the Notes pursuant to Section 15.01, any purchase or redemption of Subordinated Debt required pursuant to the terms thereof as a result of such Fundamental Change; *provided, however*, that at the time of such purchase or redemption no Event of Default shall have occurred and be continuing (or would result therefrom);

(10) any purchase or redemption of Subordinated Debt in accordance with the Existing Indenture (whether or not the Existing Notes remain outstanding);

(11) the application of the proceeds of the Notes issued on the Issue Date and any additional Notes issued if the Initial Purchasers exercise their option to purchase additional Notes in full as set forth in the Purchase Agreement, including, without limitation the repurchase of Common Stock as described under the caption "Use of Proceeds" in the Offering Memorandum; and

(12) other Restricted Payments in an aggregate amount not to exceed \$100.0 million since the Issue Date.

If the Parent or any of its Restricted Subsidiaries makes a Restricted Payment which, at the time of the making of such Restricted Payment, in the good faith determination of the Parent would be permitted under the requirements of this Indenture, such Restricted Payment shall be deemed to have been made in compliance with this Indenture notwithstanding any subsequent adjustment made in good faith to the financial statements of the Parent affecting Consolidated Net Income.

The amount of all Restricted Payments (other than cash) will be the Fair Market Value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued by the Parent or such Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment. The Fair Market Value of any assets or securities that are required to be valued by this Section 4.12 will be determined by the Board of Directors of the Parent, whose resolution with respect thereto will be delivered to the Trustee.

Section 4.13. *Future Guarantors.*

If any of the Restricted Subsidiaries of the Parent enters into a Guarantee (each, a “**Guarantee of Other Debt**”) of any Indebtedness of the Parent or the Company after the Issue Date, then that Restricted Subsidiary will become a Guarantor of the Notes and execute a supplemental indenture within 30 days after the date on which it enters into the Guarantee of Other Debt. Any such Guarantee of the Notes will be automatically released according to the release provisions of Section 13.05.

Section 4.14. *Designation of Restricted and Unrestricted Subsidiaries.* The Board of Directors of the Parent may designate any Restricted Subsidiary of the Parent (other than the Company) to be an Unrestricted Subsidiary if that designation would not cause a Default; *provided* that in no event will the business currently operated by MagnaChip Korea be transferred to or held by an Unrestricted Subsidiary. If a Restricted Subsidiary is designated as an Unrestricted Subsidiary, the aggregate Fair Market Value of all outstanding Investments owned by the Parent and its Restricted Subsidiaries in the Subsidiary designated as an Unrestricted Subsidiary will be deemed to be an Investment made as of the time of the designation and will reduce the amount available for Restricted Payments under Section 4.12 or under one or more clauses of the definition of Permitted Investments, as determined by the Parent. That designation will only be permitted if the Investment would be permitted at that time and if the Restricted Subsidiary otherwise meets the definition of an Unrestricted Subsidiary.

Any designation of a Subsidiary of the Parent as an Unrestricted Subsidiary will be evidenced to the Trustee by filing with the Trustee a certified copy of a resolution of the Board of Directors of the Parent giving effect to such designation and an Officer’s Certificate certifying that such designation complied with the preceding conditions and was permitted by Section 4.12. If, at any time, any Unrestricted Subsidiary would fail to meet the preceding requirements as an Unrestricted Subsidiary, it will thereafter cease to be an Unrestricted Subsidiary for purposes of this Indenture and any Indebtedness of such Subsidiary will be deemed to be incurred by a Restricted Subsidiary of the Parent as of such date and, if such Indebtedness is not permitted to be incurred as of such date under Section 4.10, the Parent will be in Default of such covenant. The Board of Directors of the Parent may at any time designate any Unrestricted Subsidiary to be a Restricted Subsidiary of the Parent; *provided* that such designation will be deemed to be an incurrence of Indebtedness by a Restricted Subsidiary of the Parent of any outstanding Indebtedness of such Unrestricted Subsidiary, and such designation will only be permitted if (1) such Indebtedness is permitted under Section 4.10, calculated on a pro forma basis as if such designation had occurred at the beginning of the applicable reference period; and (2) no Default or Event of Default would be in existence following such designation.

Section 4.15. *Transactions with Affiliates*

(a) The Parent will not, and will not permit any of its Restricted Subsidiaries to, make any payment to or sell, lease, transfer or otherwise dispose of any of its properties or assets to, or purchase any property or assets from, or enter into or make or amend any transaction, contract, agreement, understanding, loan, advance or guarantee with, or for the benefit of, any Affiliate of the Parent (each, an "Affiliate Transaction") involving aggregate payments or consideration in excess of \$10.0 million, unless:

(1) the Affiliate Transaction is on terms that are no less favorable to the Parent or the relevant Restricted Subsidiary than those that would have been obtained in a comparable transaction by the Parent or such Restricted Subsidiary with an unrelated Person; and

(2) the Company delivers to the Trustee:

(A) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of \$20.0 million, a resolution of the Board of Directors set forth in an Officers' Certificate certifying that such Affiliate Transaction complies with this Section 4.15 and that such Affiliate Transaction has been approved by a majority of the disinterested members of the Board of Directors; and

(B) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of \$50.0 million, an opinion by (A) a nationally recognized investment banking firm or (B) an accounting or appraisal firm nationally recognized in making determinations of this kind that such Affiliate Transaction is fair, from a financial standpoint, to the Parent or the applicable Restricted Subsidiary.

(b) The following items will not be deemed to be Affiliate Transactions and, therefore, will not be subject to the provisions of Section 4.15(a):

(1) any employment agreement, employee compensation or benefit plan, officer or director indemnification agreement or any similar arrangement entered into by the Parent or any of its Restricted Subsidiaries, and payments made pursuant thereto, in the ordinary course of business;

(2) transactions between or among the Parent and/or its Restricted Subsidiaries;

(3) transactions with a Person (other than an Unrestricted Subsidiary of the Parent) that is an Affiliate of the Parent solely because the Parent owns, directly or through a Restricted Subsidiary, an Equity Interest in, or controls, such Person;

(4) payment of reasonable and customary fees and reimbursements of expenses (pursuant to indemnity arrangements or otherwise) of officers, directors, employees or consultants of the Parent or any of its Restricted Subsidiaries;

(5) the grant of equity incentives or similar rights to employees and directors of the Parent or any of its Restricted Subsidiaries;

(6) any issuance of securities, or other payments, awards or grants in cash, securities or otherwise pursuant to, or the funding of, employment arrangements, stock options and stock ownership plans approved by the Board of Directors or a committee thereof comprised solely of independent directors;

(7) any issuance of Equity Interests (other than Disqualified Stock) of the Parent to Affiliates of the Parent;

(8) Restricted Payments that do not violate Section 4.12;

(9) transactions pursuant to any contract or agreement with the Parent or any of its Restricted Subsidiaries in effect on the Issue Date, as the same may be amended, modified or replaced from time to time so long as any such amendment, modification or replacement is not more disadvantageous to the holders of the Notes in any material respect than the terms contained in such contract or agreement as in effect on the Issue Date;

(10) payments to an Affiliate in respect of the Notes or any other Indebtedness of the Parent or any Restricted Subsidiary on the same basis as concurrent payments made or offered to be made in respect thereof to non-Affiliates;

(11) the payment of customary management, consulting and advisory fees and related expenses to the Principals and any of their respective Affiliates in connection with transactions of the Parent or its Subsidiaries or pursuant to any management, consulting, financial advisory, financing, underwriting or placement agreement or in respect of other investment banking activities, including in connection with acquisitions or divestitures, which fees and expenses are made pursuant to arrangements approved by the Board of Directors of the Parent or such Subsidiary in good faith;

(12) the provision by an Affiliate of commercial banking or lending services or other similar services on terms that are no less favorable to the Parent or the relevant Restricted Subsidiary than those that would have been obtained by an unaffiliated party and that are approved in good faith by the Board of Directors of the Parent; and

(13) loans, Guarantees or advances to employees of the Parent and its Restricted Subsidiaries in the ordinary course of business not to exceed \$10.0 million in the aggregate at any one time outstanding.

Section 4.16. *Changes in Covenants When Notes are Rated Investment Grade*

(a) If on any date following the Issue Date:

(1) the Notes are rated Baa3 or better by Moody's and BBB- or better by S&P (or, if either such entity ceases to rate the Notes for reasons outside of the control of the Company, the equivalent investment grade credit rating from any other "**nationally recognized statistical rating organization**" within the meaning of Section 3(a)(62) of the Exchange Act selected by the Company as a replacement agency); and

(2) no Default or Event of Default shall have occurred and be continuing,

then, beginning on that day and subject only to Section 4.16(c), the provisions and covenants specifically listed in Section 4.10, Section 4.12, Section 4.14, and Section 4.15 of this Indenture will be suspended (such period, a “**Suspension Period**”).

(b) During any Suspension Period, the Parent’s Board of Directors may not designate any of its Subsidiaries as Unrestricted Subsidiaries pursuant to Section 4.14 or the definition of “**Unrestricted Subsidiary**” in Section 1.01.

(c) Notwithstanding clause (a) of this Section 4.16, if the rating assigned by either such rating agency should subsequently decline to below Baa3 or BBB-, respectively, the covenants listed in Section 4.10, Section 4.12, Section 4.14, and Section 4.15 of this Indenture will be reinstated as of and from the date of such rating decline. Calculations under Section 4.12 will be made as if Section 4.12 had been in effect since the date of this Indenture except that no Default will be deemed to have occurred solely by reason of a Restricted Payment made while Section 4.12 was suspended. Indebtedness incurred during any suspension period will be classified initially as “**Existing Indebtedness**” and as having been incurred pursuant to clause (2) of the definition of “**Permitted Debt**” in Section 4.10. Notwithstanding that the suspended covenants may be reinstated, no Default will be deemed to have occurred as a result of a failure to comply with such suspended covenants during any Suspension Period (or upon termination of any covenant suspension period or after that time based solely on events that occurred during the suspension period).

(d) The Company shall provide an Officer’s Certificate to the Trustee indicating the commencement or termination of any suspension period. The Trustee will have no obligation to (i) independently determine or verify if such events have occurred, (ii) make any determination regarding the impact of actions taken during the suspension period on the Company’s future compliance with the covenants of this Indenture or (iii) notify the holders of the commencement or termination of any suspension period. Delay or failure in providing such notice shall not affect the effectiveness of such covenant suspension or reimposition.

ARTICLE 5

LISTS OF HOLDERS AND REPORTS BY THE COMPANY AND THE TRUSTEE

Section 5.01. *Lists of Holders.* The Company covenants and agrees that it will furnish or cause to be furnished to the Trustee at such times as the Trustee may reasonably request in writing, within 30 days after receipt by the Company of any such request (or such lesser time as the Trustee may reasonably request in order to enable it to timely provide any notice to be provided by it hereunder), a list in such form as the Trustee may reasonably require of the names and addresses of the Holders as of a date not more than 15 days (or such other date as the Trustee may reasonably request in order to so provide any such notices) prior to the time such information is furnished, except that no such list need be furnished so long as the Trustee is acting as Note Registrar.

Section 5.02. *Preservation and Disclosure of Lists.* The Trustee shall preserve, in as current a form as is reasonably practicable, all information as to the names and addresses of the Holders contained in the most recent list furnished to it as provided in Section 5.01 or maintained by the Trustee in its capacity as Note Registrar, if so acting. The Trustee may destroy any list furnished to it as provided in Section 5.01 upon receipt of a new list so furnished.

ARTICLE 6
DEFAULTS AND REMEDIES

Section 6.01. *Events of Default.* Each of the following events shall be an “**Event of Default**” with respect to the Notes:

- (a) default in any payment of interest on any Note when due and payable, and the default continues for a period of 30 days;
- (b) default in the payment of principal (including any Fundamental Change Repurchase Price) of any Note when due and payable on the Maturity Date, upon declaration of acceleration, upon any required repurchase, or otherwise;
- (c) failure by the Company to comply with its obligation to exchange the Notes in accordance with this Indenture upon exercise of a Holder’s exchange right;
- (d) failure by the Company to give a Fundamental Change Company Notice in accordance with Section 15.01(c) when due;
- (e) failure by the Parent or the Company to comply with its obligations under Article 11;
- (f) failure by the Parent or the Company for 60 days after written notice from the Trustee or the Holders of at least 25% in principal amount of the Notes then outstanding has been received by the Company to comply with any of its other agreements contained in the Notes or this Indenture;
- (g) default by the Company, the Parent or any Significant Subsidiary of the Parent with respect to any mortgage, agreement or other instrument under which there may be outstanding, or by which there may be secured or evidenced, any indebtedness (other than intercompany indebtedness) for money borrowed in excess of \$50,000,000 (or its foreign currency equivalent) in the aggregate of the Company, the Parent and/or any such Significant Subsidiary of the Parent, whether such indebtedness now exists or shall hereafter be created (i) resulting in such indebtedness becoming or being declared due and payable or (ii) constituting a failure to pay the principal or interest of any such debt when due and payable at its Stated Maturity, upon required repurchase, upon declaration of acceleration or otherwise, in each case where such default is beyond any applicable grace period, is continuing and has not been waived;
- (h) a final judgment or judgments for the payment of \$50,000,000 (or its foreign currency equivalent) or more (excluding any amounts covered by insurance) in the aggregate rendered against the Company, the Parent or any Restricted Subsidiary that is a Significant Subsidiary of the Parent, which judgment is not discharged, bonded, paid, waived or stayed within 60 days after (i) the date on which the right to appeal thereof has expired if no such appeal has commenced, or (ii) the date on which all rights to appeal have been extinguished; or

(i) the Company, the Parent or any Restricted Subsidiary that is a Significant Subsidiary of the Parent shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to the Company, the Parent or any such Significant Subsidiary of the Parent or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of the Company, the Parent or any such Significant Subsidiary of the Parent or any substantial part of its property in connection with such a case or proceeding, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors;

(j) an involuntary case or other proceeding shall be commenced against the Company, the Parent or any Restricted Subsidiary that is a Significant Subsidiary of the Parent seeking liquidation, reorganization or other relief with respect to the Company, the Parent or such Significant Subsidiary of the Parent or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of the Company, the Parent or such Significant Subsidiary of the Parent or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of 30 consecutive days; or

(k) the Parent or any Significant Subsidiary that is a Guarantor repudiates its obligations under its Note Guarantee or, except as permitted under this Indenture, the Note Guarantee of the Parent is determined to be unenforceable or invalid or shall for any reason cease to be in full force or effect.

Section 6.02. *Acceleration; Rescission and Annulment.* If one or more Events of Default shall have occurred and be continuing (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body), then, and in each and every such case (other than an Event of Default specified in Section 6.01(i) or Section 6.01(j) with respect to the Company or any of the Significant Subsidiaries of the Parent), unless the principal of all of the Notes shall have already become due and payable, either the Trustee or the Holders of at least 25% in aggregate principal amount of the Notes then outstanding determined in accordance with Section 8.04, by notice in writing to the Company (and to the Trustee if given by Holders), may declare 100% of the principal of, and accrued and unpaid interest on, all the Notes to be due and payable immediately, and upon any such declaration the same shall become and shall automatically be immediately due and payable, anything contained in this Indenture or in the Notes to the contrary notwithstanding. If an Event of Default specified in Section 6.01(i) or Section 6.01(j) with respect to the Company or any of the Significant Subsidiaries of the Parent occurs and is continuing, 100% of the principal of, and accrued and unpaid interest, if any, on, all Notes shall become and shall automatically be immediately due and payable.

The immediately preceding paragraph, however, is subject to the conditions that if, at any time after the principal of the Notes shall have been so declared due and payable, and before any judgment or decree for the payment of the monies due shall have been obtained or entered as hereinafter provided, the Company shall pay or shall deposit with the Trustee a sum sufficient, as determined by the Company, to pay installments of accrued and unpaid interest upon all Notes and the principal of any and all Notes that shall have become due otherwise than by acceleration (with interest on overdue installments of accrued and unpaid interest to the extent that payment of such interest is enforceable under applicable law, and on such principal at the rate borne by the Notes at such time) and amounts due to the Trustee pursuant to Section 7.06, and if (1) rescission would not conflict with any judgment or decree of a court of competent jurisdiction and (2) any and all existing Events of Default under this Indenture, other than the nonpayment of the principal of and accrued and unpaid interest, if any, on Notes that shall have become due solely by such acceleration, shall have been cured or waived pursuant to Section 6.09, then and in every such case (except as provided in the immediately succeeding sentence) the Holders of a majority in aggregate principal amount of the Notes then outstanding, by written notice to the Company and to the Trustee, may waive all Defaults or Events of Default with respect to the Notes and rescind and annul such declaration and its consequences and such Default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured for every purpose of this Indenture; but no such waiver or rescission and annulment shall extend to or shall affect any subsequent Default or Event of Default, or shall impair any right consequent thereon. Notwithstanding anything to the contrary herein, no such waiver or rescission and annulment shall extend to or shall affect any Default or Event of Default resulting from (i) the nonpayment of the principal (including the Fundamental Change Repurchase Price, if applicable) of, or accrued and unpaid interest on, any Notes, (ii) a failure to repurchase any Notes when required or (iii) a failure to pay or deliver, as the case may be, the consideration due upon exchange of the Notes.

Section 6.03. *Additional Interest.* Notwithstanding anything in this Indenture or in the Notes to the contrary, to the extent the Company elects, the sole remedy for an Event of Default relating to the Company's failure to comply with its obligations as set forth in Section 4.06(b) shall (i) for the first 180 days after the occurrence of such an Event of Default consist exclusively of the right to receive Additional Interest on the Notes at a rate equal to 0.25% per annum of the principal amount of the Notes outstanding for each day during such 180-day period on which such Event of Default is continuing beginning on, and including, the date on which such an Event of Default first occurs and (ii) for the period from, and including, the 181st day after the occurrence of such an Event of Default to, and including, the 365th day after the occurrence of such an Event of Default, consist exclusively of the right to receive Additional Interest on the Notes at a rate equal to 0.50% per annum of the principal amount of the Notes outstanding for each day during such additional 185-day period on which such Event of Default is continuing. Subject to the last paragraph of this Section 6.03, Additional Interest payable pursuant to this Section 6.03 shall be in addition to, not in lieu of, any Additional Interest payable pursuant to Section 4.06(d). If the Company so elects, such Additional Interest shall be payable in the same manner and on the same dates as the stated interest payable on the Notes. On the 366th day after such Event of Default (if the Event of Default relating to the Company's failure to file is not cured or waived prior to such 366th day), the Notes shall be immediately subject to acceleration as provided in Section 6.02. The provisions of this paragraph will not affect the rights of Holders of Notes in the event of the occurrence of any Event of Default other than the

Company's failure to comply with its obligations as set forth in Section 4.06(b). In the event the Company does not elect to pay Additional Interest following an Event of Default in accordance with this Section 6.03 or the Company elected to make such payment but does not pay the Additional Interest when due, the Notes shall be immediately subject to acceleration as provided in Section 6.02.

In order to elect to pay Additional Interest as the sole remedy during the first 365 days after the occurrence of any Event of Default described in the immediately preceding paragraph, the Company must deliver a notice to all Holders of the Notes, the Trustee and the Paying Agent of such election prior to the beginning of such 365-day period. Upon the failure to timely give such notice, the Notes shall be immediately subject to acceleration as provided in Section 6.02.

In no event shall Additional Interest payable at the Company's election as the remedy for an Event of Default relating to its failure to comply with its obligations under Section 4.06(b) as set forth in this Section 6.03, together with any Additional Interest that may accrue as a result of the Company's failure to comply with its obligations as described in Section 4.06(d), accrue at a rate in excess of 0.50% per annum, regardless of the number of events or circumstances giving rise to the requirement to pay such Additional Interest.

Section 6.04. *Payments of Notes on Default; Suit Therefor.* If an Event of Default described in clause (a) or (b) of Section 6.01 shall have occurred, the Company shall, upon demand of the Trustee, pay to the Trustee, for the benefit of the Holders of the Notes, the whole amount then due and payable on the Notes for principal and interest, if any, with interest on any overdue principal and interest, if any, at the rate borne by the Notes at such time, and, in addition thereto, such further amount as shall be sufficient to cover any amounts due to the Trustee under Section 7.06. If the Company shall fail to pay such amounts forthwith upon such demand, the Trustee, in its own name and as trustee of an express trust, may institute a judicial proceeding for the collection of the sums so due and unpaid, may prosecute such proceeding to judgment or final decree and may enforce the same against the Company or any other obligor upon the Notes and collect the moneys adjudged or decreed to be payable in the manner provided by law out of the property of the Company or any other obligor upon the Notes, wherever situated.

In the event there shall be pending proceedings for the bankruptcy or for the reorganization of the Company or any other obligor on the Notes under Title 11 of the United States Code, or any other applicable law, or in case a receiver, assignee or trustee in bankruptcy or reorganization, liquidator, sequestrator or similar official shall have been appointed for or taken possession of the Company or such other obligor, the property of the Company or such other obligor, or in the event of any other judicial proceedings relative to the Company or such other obligor upon the Notes, or to the creditors or property of the Company or such other obligor, the Trustee, irrespective of whether the principal of the Notes shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Trustee shall have made any demand pursuant to the provisions of this Section 6.04, shall be entitled and empowered, by intervention in such proceedings or otherwise, to file and prove a claim or claims for the whole amount of principal and accrued and unpaid interest, if any, in respect of the Notes, and, in case of any judicial proceedings, to file such proofs of claim and other papers or documents and to take such other actions as it may deem necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation,

expenses, disbursements and advances of the Trustee, its agents and counsel) and of the Holders allowed in such judicial proceedings relative to the Company or any other obligor on the Notes, its or their creditors, or its or their property, and to collect and receive any monies or other property payable or deliverable on any such claims, and to distribute the same after the deduction of any amounts due to the Trustee under Section 7.06; and any receiver, assignee or trustee in bankruptcy or reorganization, liquidator, custodian or similar official is hereby authorized by each of the Holders to make such payments to the Trustee, as administrative expenses, and, in the event that the Trustee shall consent to the making of such payments directly to the Holders, to pay to the Trustee any amount due it for reasonable compensation, expenses, advances and disbursements, including agents and counsel fees, and including any other amounts due to the Trustee under Section 7.06, incurred by it up to the date of such distribution. To the extent that such payment of reasonable compensation, expenses, advances and disbursements out of the estate in any such proceedings shall be denied for any reason, payment of the same shall be secured by a lien on, and shall be paid out of, any and all distributions, dividends, monies, securities and other property that the Holders of the Notes may be entitled to receive in such proceedings, whether in liquidation or under any plan of reorganization or arrangement or otherwise.

Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment or composition affecting such Holder or the rights of any Holder thereof, or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding.

All rights of action and of asserting claims under this Indenture, or under any of the Notes, may be enforced by the Trustee without the possession of any of the Notes, or the production thereof at any trial or other proceeding relative thereto, and any such suit or proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Holders of the Notes.

In any proceedings brought by the Trustee (and in any proceedings involving the interpretation of any provision of this Indenture to which the Trustee shall be a party) the Trustee shall be held to represent all the Holders of the Notes, and it shall not be necessary to make any Holders of the Notes parties to any such proceedings.

In case the Trustee shall have proceeded to enforce any right under this Indenture and such proceedings shall have been discontinued or abandoned because of any waiver pursuant to Section 6.09 or any rescission and annulment pursuant to Section 6.02 or for any other reason or shall have been determined adversely to the Trustee, then and in every such case the Company, the Parent, the Holders and the Trustee shall, subject to any determination in such proceeding, be restored respectively to their several positions and rights hereunder, and all rights, remedies and powers of the Company, the Parent, the Holders and the Trustee shall continue as though no such proceeding had been instituted.

Section 6.05. *Application of Monies Collected by Trustee.* Any monies collected by the Trustee pursuant to this Article 6 with respect to the Notes shall be applied in the following order, at the date or dates fixed by the Trustee for the distribution of such monies, upon presentation of the several Notes, and stamping thereon the payment, if only partially paid, and upon surrender thereof, if fully paid:

First, to the payment of all amounts due the Trustee under Section 7.06;

Second, in case the principal of the outstanding Notes shall not have become due and be unpaid, to the payment of interest on, and any cash due upon exchange of, the Notes in default in the order of the date due of the payments of such interest and cash due upon exchange, as the case may be, with interest (to the extent that such interest has been collected by the Trustee) upon such overdue payments at the rate borne by the Notes at such time, such payments to be made ratably to the Persons entitled thereto;

Third, in case the principal of the outstanding Notes shall have become due, by declaration or otherwise, and be unpaid to the payment of the whole amount (including, if applicable, the payment of the Fundamental Change Repurchase Price and any cash due upon exchange) then owing and unpaid upon the Notes for principal and interest, if any, with interest on the overdue principal and, to the extent that such interest has been collected by the Trustee, upon overdue installments of interest at the rate borne by the Notes at such time, and in case such monies shall be insufficient to pay in full the whole amounts so due and unpaid upon the Notes, then to the payment of such principal (including, if applicable, the Fundamental Change Repurchase Price and the cash due upon exchange) and interest without preference or priority of principal over interest, or of interest over principal or of any installment of interest over any other installment of interest, or of any Note over any other Note, ratably to the aggregate of such principal (including, if applicable, the Fundamental Change Repurchase Price and any cash due upon exchange) and accrued and unpaid interest; and

Fourth, to the payment of the remainder, if any, to the Company.

Section 6.06. *Proceedings by Holders.* Except to enforce the right to receive payment of principal (including, if applicable, the Fundamental Change Repurchase Price) or interest when due, or the right to receive payment or delivery of the consideration due upon exchange, no Holder of any Note shall have any right by virtue of or by availing of any provision of this Indenture to institute any suit, action or proceeding in equity or at law upon or under or with respect to this Indenture, or for the appointment of a receiver, trustee, liquidator, custodian or other similar official, or for any other remedy hereunder, unless:

- (a) such Holder previously shall have given to the Trustee written notice of an Event of Default and of the continuance thereof, as herein provided;
- (b) Holders of at least 25% in aggregate principal amount of the Notes then outstanding shall have made written request upon the Trustee to institute such action, suit or proceeding in its own name as Trustee hereunder;
- (c) such Holders shall have offered to the Trustee such security or indemnity satisfactory to it against any loss, liability or expense to be incurred therein or thereby;

(d) the Trustee for 60 days after its receipt of such written notice, request and offer of such security or indemnity, shall have neglected or refused to institute any such action, suit or proceeding; and

(e) no direction that, in the opinion of the Trustee, is inconsistent with such written request shall have been given to the Trustee by the Holders of a majority of the aggregate principal amount of the Notes then outstanding within such 60-day period pursuant to Section 6.09,

it being understood and intended, and being expressly covenanted by the taker and Holder of every Note with every other taker and Holder and the Trustee that no one or more Holders shall have any right in any manner whatever by virtue of or by availing of any provision of this Indenture to affect, disturb or prejudice the rights of any other Holder, or to obtain or seek to obtain priority over or preference to any other such Holder, or to enforce any right under this Indenture, except in the manner herein provided and for the equal, ratable and common benefit of all Holders (except as otherwise provided herein). For the protection and enforcement of this Section 6.06, each and every Holder and the Trustee shall be entitled to such relief as can be given either at law or in equity.

Notwithstanding any other provision of this Indenture and any provision of any Note, each holder shall have the right to receive payment or delivery, as the case may be, of (x) the principal (including the Fundamental Change Repurchase Price, if applicable) of, (y) accrued and unpaid interest, if any, on, and (z) the consideration due upon exchange of, such Note, on or after the respective due dates expressed or provided for in such Note or in this Indenture, or to institute suit for the enforcement of any such payment or delivery, as the case may be.

Section 6.07. *Proceedings by Trustee.* In case of an Event of Default, the Trustee may in its discretion proceed to protect and enforce the rights vested in it by this Indenture by such appropriate judicial proceedings as are necessary to protect and enforce any of such rights, either by suit in equity or by action at law or by proceeding in bankruptcy or otherwise, whether for the specific enforcement of any covenant or agreement contained in this Indenture or in aid of the exercise of any power granted in this Indenture, or to enforce any other legal or equitable right vested in the Trustee by this Indenture or by law.

Section 6.08. *Remedies Cumulative and Continuing.* Except as provided in the last paragraph of Section 2.06, all powers and remedies given by this Article 6 to the Trustee or to the Holders shall, to the extent permitted by law, be deemed cumulative and not exclusive of any thereof or of any other powers and remedies available to the Trustee or the Holders of the Notes, by judicial proceedings or otherwise, to enforce the performance or observance of the covenants and agreements contained in this Indenture, and no delay or omission of the Trustee or of any Holder of any of the Notes to exercise any right or power accruing upon any Default or Event of Default shall impair any such right or power, or shall be construed to be a waiver of any such Default or Event of Default or any acquiescence therein; and, subject to the provisions of Section 6.06, every power and remedy given by this Article 6 or by law to the Trustee or to the Holders may be exercised from time to time, and as often as shall be deemed expedient, by the Trustee or by the Holders.

Section 6.09. *Direction of Proceedings and Waiver of Defaults by Majority of Holders.* The Holders of a majority of the aggregate principal amount of the Notes at the time outstanding determined in accordance with Section 8.04 shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee with respect to the Notes; *provided, however*, that (a) such direction shall not be in conflict with any rule of law or with this Indenture, and (b) the Trustee may take any other action deemed proper by the Trustee that is not inconsistent with such direction. The Trustee may refuse to follow any direction that it determines in good faith is unduly prejudicial to the rights of any other Holder or that would involve the Trustee in personal liability. The Holders of a majority in aggregate principal amount of the Notes at the time outstanding determined in accordance with Section 8.04 may on behalf of the Holders of all of the Notes waive any past Default or Event of Default hereunder and its consequences except (i) a default in the payment of accrued and unpaid interest, if any, on, or the principal (including the Fundamental Change Repurchase Price) of, the Notes when due that has not been cured pursuant to the provisions of Section 6.01, (ii) a failure by the Company to pay or deliver, as the case may be, the consideration due upon exchange of the Notes or (iii) a default in respect of a covenant or provision hereof which under Article 10 cannot be modified or amended without the consent of each Holder of an outstanding Note affected. Upon any such waiver the Company, the Trustee and the Holders of the Notes shall be restored to their former positions and rights hereunder; but no such waiver shall extend to any subsequent or other Default or Event of Default or impair any right consequent thereon. Whenever any Default or Event of Default hereunder shall have been waived as permitted by this Section 6.09, said Default or Event of Default shall for all purposes of the Notes and this Indenture be deemed to have been cured and to be not continuing; but no such waiver shall extend to any subsequent or other Default or Event of Default or impair any right consequent thereon.

Section 6.10. *Notice of Defaults.* The Trustee shall, within 90 days after the occurrence and continuance of a Default of which a Responsible Officer has actual knowledge, provide to all Holders as the names and addresses of such Holders appear upon the Note Register, notice of all Defaults known to a Responsible Officer, unless such Defaults shall have been cured or waived before the giving of such notice; *provided that*, except in the case of (x) a Default in the payment of the principal of (including the Fundamental Change Repurchase Price, if applicable), or accrued and unpaid interest on, any of the Notes or (y) a Default in the payment or delivery of the consideration due upon exchange, the Trustee shall be protected in withholding such notice if and so long as the Trustee in good faith determines that the withholding of such notice is in the interests of the Holders.

Section 6.11. *Undertaking to Pay Costs.* All parties to this Indenture agree, and each Holder of any Note by its acceptance thereof shall be deemed to have agreed, that any court may, in its discretion, require, in any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees and expenses, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; *provided that* the provisions of this Section 6.11 (to the extent permitted by law) shall not apply to any suit instituted by the Trustee, to any suit instituted by any Holder, or group of Holders, holding in the aggregate more than 10% in

principal amount of the Notes at the time outstanding determined in accordance with Section 8.04, or to any suit instituted by any Holder for the enforcement of the payment of the principal of or accrued and unpaid interest, if any, on any Note (including, but not limited to, the Fundamental Change Repurchase Price, if applicable) on or after the due date expressed or provided for in such Note or to any suit for the enforcement of the right to exchange any Note in accordance with the provisions of Article 14.

ARTICLE 7
CONCERNING THE TRUSTEE

Section 7.01. *Duties and Responsibilities of Trustee.* The Trustee, prior to the occurrence of an Event of Default and after the curing or waiver of all Events of Default that may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in this Indenture. In the event an Event of Default has occurred and is continuing and is actually known to a Responsible Officer of the Trustee, the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in its exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs; *provided* that if an Event of Default occurs and is continuing, the Trustee will be under no obligation to exercise any of the rights or powers under this Indenture at the request or direction of any of the Holders unless such Holders have offered to the Trustee indemnity or security satisfactory to it against any loss, liability or expense that might be incurred by it in compliance with such request or direction.

No provision of this Indenture shall be construed to relieve the Trustee from liability for its own grossly negligent action, its own grossly negligent failure to act or its own willful misconduct, except that:

(a) prior to the occurrence of an Event of Default and after the curing or waiving of all Events of Default that may have occurred:

(1) the duties and obligations of the Trustee shall be determined solely by the express provisions of this Indenture, and the Trustee shall not be liable except for the performance of such duties and obligations as are specifically set forth in this Indenture and no implied covenants or obligations shall be read into this Indenture against the Trustee; and

(2) in the absence of bad faith and willful misconduct on the part of the Trustee, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture; but, in the case of any such certificates or opinions that by any provisions hereof are specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not they conform on their face to the requirements of this Indenture (but need not confirm or investigate the accuracy of any mathematical calculations or other facts stated therein);

(b) the Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer or Officers of the Trustee, unless it shall be proved that the Trustee was grossly negligent in ascertaining the pertinent facts;

(c) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of not less than a majority of the aggregate principal amount of the Notes at the time outstanding determined as provided in Section 8.04 relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under this Indenture;

(d) whether or not therein provided, every provision of this Indenture relating to the conduct or affecting the liability of, or affording protection to, the Trustee shall be subject to the provisions of this Section;

(e) the Trustee shall not be liable in respect of any payment (as to the correctness of amount, entitlement to receive or any other matters relating to payment) or notice effected by the Company or any Paying Agent or any records maintained by any co-Note Registrar with respect to the Notes;

(f) if any party fails to deliver a notice relating to an event the fact of which, pursuant to this Indenture, requires notice to be sent to the Trustee, the Trustee may conclusively rely on its failure to receive such notice as reason to act as if no such event occurred, unless a Responsible Officer of the Trustee had actual knowledge of such event;

(g) in the absence of written investment direction from the Company, all cash received by the Trustee shall be placed in a non-interest bearing trust account, and in no event shall the Trustee be liable for the selection of investments or for investment losses incurred thereon or for losses incurred as a result of the liquidation of any such investment prior to its maturity date or the failure of the party directing such investments prior to its maturity date or the failure of the party directing such investment to provide timely written investment direction, and the Trustee shall have no obligation to invest or reinvest any amounts held hereunder in the absence of such written investment direction from the Company; and

(h) in the event that the Trustee is also acting as Custodian, Note Registrar, Paying Agent, Exchange Agent or transfer agent hereunder, the rights and protections afforded to the Trustee pursuant to this Article 7 shall also be afforded to such Custodian, Note Registrar, Paying Agent, Exchange Agent or transfer agent.

None of the provisions contained in this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur personal financial liability in the performance of any of its duties or in the exercise of any of its rights or powers.

Section 7.02. *Reliance on Documents, Opinions, Etc.* Except as otherwise provided in Section 7.01:

(a) the Trustee may conclusively rely and shall be fully protected in acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, bond, note, coupon or other paper or document believed by it in good faith to be genuine and to have been signed or presented by the proper party or parties;

(b) any request, direction, order or demand of the Company mentioned herein shall be sufficiently evidenced by an Officer's Certificate (unless other evidence in respect thereof be herein specifically prescribed); and any Board Resolution may be evidenced to the Trustee by a copy thereof certified by the Secretary or an Assistant Secretary of the Parent;

(c) the Trustee may consult with counsel and require an Opinion of Counsel and any advice of such counsel or Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken or omitted by it hereunder in good faith and in accordance with such advice or Opinion of Counsel;

(d) the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the Company, personally or by agent or attorney at the expense of the Company and shall incur no liability of any kind by reason of such inquiry or investigation;

(e) the Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents, custodians, nominees or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent, custodian, nominee or attorney appointed by it with due care hereunder;

(f) the permissive rights of the Trustee enumerated herein shall not be construed as duties;

(g) in no event shall the Trustee be liable for any special, indirect, punitive or consequential loss or damage of any kind whatsoever (including but not limited to lost profits), even if the Trustee has been advised of the likelihood of such loss or damage and regardless of the form of action other than any such loss or damage caused by the Trustee's willful misconduct or gross negligence;

(h) the Trustee shall not be charged with knowledge of any Default or Event of Default with respect to the Notes, unless either (1) a Responsible Officer shall have actual knowledge of such Default or Event of Default or (2) written notice of such Default or Event of Default shall have been given to the Trustee by the Company or by any Holder of the Notes; and

(i) the Trustee shall not be obligated to take possession of any Common Stock, whether upon exchange or in connection with any discharge of this Indenture pursuant to Article 3, but shall satisfy its obligation as Exchange Agent by working through the stock transfer agent of the Company from time to time as directed by the Company.

Section 7.03. *No Responsibility for Recitals, Etc.* The recitals contained herein and in the Notes (except in the Trustee's certificate of authentication) shall be taken as the statements of the Company, and the Trustee assumes no responsibility for the correctness of the same. The Trustee makes no representations as to the validity or sufficiency of this Indenture or of the Notes. The Trustee shall not be accountable for the use or application by the Company of any Notes or the proceeds of any Notes authenticated and delivered by the Trustee in conformity with the provisions of this Indenture.

Section 7.04. *Trustee, Paying Agents, Exchange Agents or Note Registrar May Own Notes.* The Trustee, any Paying Agent, any Exchange Agent or Note Registrar, in its individual or any other capacity, may become the owner or pledgee of Notes with the same rights it would have if it were not the Trustee, Paying Agent, Exchange Agent or Note Registrar.

Section 7.05. *Monies and Shares of Common Stock to Be Held in Trust.* All monies and shares of Common Stock received by the Trustee shall, until used or applied as herein provided, be held in trust for the purposes for which they were received. Money and shares of Common Stock held by the Trustee in trust hereunder need not be segregated from other funds except to the extent required by law. The Trustee shall be under no liability for interest on any money or shares of Common Stock received by it hereunder except as may be agreed from time to time by the Company and the Trustee.

Section 7.06. *Compensation, Expenses and Indemnity of Trustee.* The Company covenants and agrees to pay to the Trustee from time to time, and the Trustee shall be entitled to, reasonable compensation for all services rendered by it hereunder in any capacity (which shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust) as mutually agreed to in writing between the Trustee and the Company, and the Company will pay or reimburse the Trustee upon its request for all reasonable expenses, disbursements and advances reasonably incurred or made by the Trustee in accordance with any of the provisions of this Indenture in any capacity thereunder (including the reasonable compensation and the expenses and disbursements of its agents and counsel and of all Persons not regularly in its employ) except any such expense, disbursement or advance as shall have been caused by its gross negligence or willful misconduct, as determined by a final, non-appealable determination of a court of competent jurisdiction. The Company also covenants to indemnify the Trustee in any capacity under this Indenture and any other document or transaction entered into in connection herewith and its agents and any authenticating agent for, and to hold them harmless against, any loss, claim, damage, liability or expense incurred without gross negligence or willful misconduct, as determined by a final, non-appealable determination of a court of competent jurisdiction, on the part of the Trustee, its officers, directors, agents or employees, or such agent or authenticating agent, as the case may be, and arising out of or in connection with the acceptance or administration of this Indenture or in any other capacity hereunder, including the reasonable costs and expenses of defending themselves against any claim of liability in the premises. The obligations of the Company under this Section 7.06 to compensate or indemnify the Trustee and to pay or reimburse the Trustee for expenses, disbursements and advances shall be secured by a senior claim to which the Notes are hereby made subordinate on all money or property held or collected by the Trustee, except, subject to the effect of Section 6.05, funds held in trust herewith for the benefit of the Holders of particular Notes. The Trustee's right to receive payment of any amounts due under this Section 7.06 shall not be subordinate to any other liability or indebtedness of the Company. The obligation of the Company under this Section 7.06 shall survive the satisfaction and discharge of this Indenture, including any termination or

rejection hereof under any Bankruptcy Law, and the earlier resignation or removal of the Trustee. The Company need not pay for any settlement made without its consent, which consent shall not be unreasonably withheld. The indemnification provided in this Section 7.06 shall extend to the officers, directors, agents and employees of the Trustee.

Without prejudice to any other rights available to the Trustee under applicable law, when the Trustee and its agents and any authenticating agent incur expenses or render services after an Event of Default specified in Section 6.01(i) or Section 6.01(j) occurs, the expenses and the compensation for the services are intended to constitute expenses of administration under any bankruptcy, insolvency or similar laws.

Section 7.07. *Officer's Certificate as Evidence.* Except as otherwise provided in Section 7.01, whenever in the administration of the provisions of this Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or omitting any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may, in the absence of gross negligence or willful misconduct on the part of the Trustee, be deemed to be conclusively proved and established by an Officer's Certificate delivered to the Trustee, and such Officer's Certificate, in the absence of gross negligence or willful misconduct on the part of the Trustee, shall be full warrant to the Trustee for any action taken or omitted by it under the provisions of this Indenture upon the faith thereof.

Section 7.08. *Eligibility of Trustee.* There shall at all times be a Trustee hereunder which shall be a Person that is eligible pursuant to the Trust Indenture Act (as if the Trust Indenture Act were applicable hereto) to act as such and has a combined capital and surplus of at least \$50,000,000. If such Person publishes reports of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such Person shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section, it shall resign immediately in the manner and with the effect hereinafter specified in this Article.

Section 7.09. *Resignation or Removal of Trustee.* (a) The Trustee may at any time resign by giving written notice of such resignation to the Company and by mailing notice thereof to the Holders at their addresses as they shall appear on the Note Register. Upon receiving such notice of resignation, the Company shall promptly appoint a successor trustee by written instrument, in duplicate, executed by order of the Board of Directors, one copy of which instrument shall be delivered to the resigning Trustee and one copy to the successor trustee. If no successor trustee shall have been so appointed and have accepted appointment within 60 days after the mailing of such notice of resignation to the Holders, the resigning Trustee may, upon ten Business Days' notice to the Company and the Holders, petition any court of competent jurisdiction for the appointment of a successor trustee, or any Holder who has been a bona fide holder of a Note or Notes for at least six months (or since the date of this Indenture) may, subject to the provisions of Section 6.11, on behalf of himself or herself and all others similarly situated, petition any such court for the appointment of a successor trustee. Such court may thereupon, after such notice, if any, as it may deem proper and prescribe, appoint a successor trustee.

(b) In case at any time any of the following shall occur:

(1) the Trustee shall cease to be eligible in accordance with the provisions of Section 7.08 and shall fail to resign after written request therefor by the Company or by any such Holder, or

(2) the Trustee shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or of its property shall be appointed, or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in either case, the Company may by a Board Resolution remove the Trustee and appoint a successor trustee by 30 days' advance written notice, in duplicate, executed by order of the Board of Directors, one copy of which instrument shall be delivered to the Trustee so removed and one copy to the successor trustee, or, subject to the provisions of Section 6.11, any Holder who has been a bona fide holder of a Note or Notes for at least six months (or since the date of this Indenture) may, on behalf of himself or herself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor trustee. Such court may thereupon, after such notice, if any, as it may deem proper and prescribe, remove the Trustee and appoint a successor trustee.

(c) The Holders of a majority in aggregate principal amount of the Notes at the time outstanding, as determined in accordance with Section 8.04, may, with 30 days' written notice, remove the Trustee and nominate a successor trustee that shall be deemed appointed as successor trustee unless within ten days after notice to the Company of such nomination the Company objects thereto, in which case the Trustee so removed or any Holder, upon the terms and conditions and otherwise as in Section 7.09(a) provided may petition any court of competent jurisdiction for an appointment of a successor trustee.

(d) Any resignation or removal of the Trustee and appointment of a successor trustee pursuant to any of the provisions of this Section 7.09 shall become effective upon acceptance of appointment by the successor trustee as provided in Section 7.10.

Section 7.10. *Acceptance by Successor Trustee.* Any successor trustee appointed as provided in Section 7.09 shall execute, acknowledge and deliver to the Company and to its predecessor trustee an instrument accepting such appointment hereunder, and thereupon the resignation or removal of the predecessor trustee shall become effective and such successor trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, duties and obligations of its predecessor hereunder, with like effect as if originally named as Trustee herein; but, nevertheless, on the written request of the Company or of the successor trustee, the trustee ceasing to act shall, upon payment of any amounts then due it pursuant to the provisions of Section 7.06, execute and deliver an instrument transferring to such successor trustee all the rights and powers of the trustee so ceasing to act. Upon request of any such successor trustee, the Company shall execute any and all instruments in writing for more fully and certainly vesting in and confirming to such successor trustee all such rights and powers. Any trustee ceasing to act shall, nevertheless, retain a senior claim to which the Notes are hereby made subordinate on all money or property held or collected by such trustee as such, except for funds held in trust for the benefit of Holders of particular Notes, to secure any amounts then due it pursuant to the provisions of Section 7.06.

No successor trustee shall accept appointment as provided in this Section 7.10 unless at the time of such acceptance such successor trustee shall be eligible under the provisions of Section 7.08.

Upon acceptance of appointment by a successor trustee as provided in this Section 7.10, each of the Company and the successor trustee, at the written direction and at the expense of the Company shall provide or cause to be provided notice of the succession of such trustee hereunder to the Holders at their addresses as they shall appear on the Note Register. If the Company fails to provide such notice within ten days after acceptance of appointment by the successor trustee, the successor trustee shall cause such notice to be provided at the expense of the Company.

Section 7.11. *Succession by Merger, Etc.* Any corporation or other entity into which the Trustee may be merged or converted or with which it may be consolidated, or any corporation or other entity resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any corporation or other entity succeeding to all or substantially all of the corporate trust business of the Trustee (including the administration of this Indenture), shall be the successor to the Trustee hereunder without the execution or filing of any paper or any further act on the part of any of the parties hereto; *provided* that in the case of any corporation or other entity succeeding to all or substantially all of the corporate trust business of the Trustee such corporation or other entity shall be eligible under the provisions of Section 7.08.

In case at the time such successor to the Trustee shall succeed to the trusts created by this Indenture, any of the Notes shall have been authenticated but not delivered, any such successor to the Trustee may adopt the certificate of authentication of any predecessor trustee or authenticating agent appointed by such predecessor trustee, and deliver such Notes so authenticated; and in case at that time any of the Notes shall not have been authenticated, any successor to the Trustee or an authenticating agent appointed by such successor trustee may authenticate such Notes either in the name of any predecessor trustee hereunder or in the name of the successor trustee; and in all such cases such certificates shall have the full force which it is anywhere in the Notes or in this Indenture provided that the certificate of the Trustee shall have; *provided, however*, that the right to adopt the certificate of authentication of any predecessor trustee or to authenticate Notes in the name of any predecessor trustee shall apply only to its successor or successors by merger, conversion or consolidation.

Section 7.12. *Trustee's Application for Instructions from the Company.* Any application by the Trustee for written instructions from the Company (other than with regard to any action proposed to be taken or omitted to be taken by the Trustee that affects the rights of the Holders of the Notes under this Indenture) may, at the option of the Trustee, set forth in writing any action proposed to be taken or omitted by the Trustee under this Indenture and the date on and/or after which such action shall be taken or such omission shall be effective. The Trustee shall not be liable to the Company for any action taken by, or omission of, the Trustee in accordance with a proposal included in such application on or after the date specified in such application (which date shall not be less than three Business Days after the date any officer that the Company has

indicated to the Trustee should receive such application actually receives such application, unless any such officer shall have consented in writing to any earlier date), unless, prior to taking any such action (or the effective date in the case of any omission), a Responsible Officer of the Trustee shall have received written instructions in accordance with this Indenture in response to such application specifying the action to be taken or omitted.

ARTICLE 8
CONCERNING THE HOLDERS

Section 8.01. *Action by Holders.* Whenever in this Indenture it is provided that the Holders of a specified percentage of the aggregate principal amount of the Notes may take any action (including the making of any demand or request, the giving of any notice, consent or waiver or the taking of any other action), the fact that at the time of taking any such action, the Holders of such specified percentage have joined therein may be evidenced (a) by any instrument or any number of instruments of similar tenor executed by Holders in person or by agent or proxy appointed in writing, (b) by the record of the Holders voting in favor thereof at any meeting of Holders duly called and held in accordance with the provisions of Article 9, or (c) by a combination of such instrument or instruments and any such record of such a meeting of Holders. Whenever the Company or the Trustee solicits the taking of any action by the Holders of the Notes, the Company or the Trustee may, but shall not be required to, fix in advance of such solicitation, a date as the record date for determining Holders entitled to take such action. The record date if one is selected shall be not more than fifteen days prior to the date of commencement of solicitation of such action.

Section 8.02. *Proof of Execution by Holders.* Subject to the provisions of Section 7.01, Section 7.02 and Section 9.05, proof of the execution of any instrument by a Holder or its agent or proxy shall be sufficient if made in accordance with such reasonable rules and regulations as may be prescribed by the Trustee or in such manner as shall be satisfactory to the Trustee. The holding of Notes shall be proved by the Note Register or by a certificate of the Note Registrar. The record of any Holders' meeting shall be proved in the manner provided in Section 9.06.

Section 8.03. *Who Are Deemed Absolute Owners.* The Company, the Trustee, any authenticating agent, any Paying Agent, any Exchange Agent and any Note Registrar may deem the Person in whose name a Note shall be registered upon the Note Register to be, and may treat it as, the absolute owner of such Note (whether or not such Note shall be overdue and notwithstanding any notation of ownership or other writing thereon made by any Person other than the Company or any Note Registrar) for the purpose of receiving payment of or on account of the principal (including Fundamental Change Repurchase Price) of and (subject to Section 2.03) accrued and unpaid interest on such Note, for exchange of such Note and for all other purposes; and neither the Company nor the Trustee nor any Paying Agent nor any Exchange Agent nor any Note Registrar shall be affected by any notice to the contrary. All such payments or deliveries so made to any Holder for the time being, or upon its order, shall be valid, and, to the extent of the sums or shares of Common Stock so paid or delivered, effectual to satisfy and discharge the liability for monies payable or shares deliverable upon any such Note. Notwithstanding anything to the contrary in this Indenture or the Notes following an Event of Default, any holder of a beneficial interest in a Global Note may directly enforce against the Company, without the consent, solicitation, proxy, authorization or any other action of the Depositary or any other Person, such holder's right to exchange such beneficial interest for a Note in certificated form in accordance with the provisions of this Indenture.

Section 8.04. *Company-Owned Notes Disregarded.* In determining whether the Holders of the requisite aggregate principal amount of Notes have concurred in any direction, consent, waiver or other action under this Indenture, Notes that are owned by the Company, by any Subsidiary thereof or by any Affiliate of the Company or any Subsidiary thereof shall be disregarded and deemed not to be outstanding for the purpose of any such determination; *provided* that for the purposes of determining whether the Trustee shall be protected in relying on any such direction, consent, waiver or other action only Notes that a Responsible Officer knows are so owned shall be so disregarded. Notes so owned that have been pledged in good faith may be regarded as outstanding for the purposes of this Section 8.04 if the pledgee shall establish to the satisfaction of the Trustee the pledgee's right to so act with respect to such Notes and that the pledgee is not the Company, a Subsidiary thereof or an Affiliate of the Company or a Subsidiary thereof. In the case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel shall be full protection to the Trustee. Upon request of the Trustee, the Company shall furnish to the Trustee promptly an Officer's Certificate listing and identifying all Notes, if any, known by the Company to be owned or held by or for the account of any of the above described Persons; and, subject to Section 7.01, the Trustee shall be entitled to accept such Officer's Certificate as conclusive evidence of the facts therein set forth and of the fact that all Notes not listed therein are outstanding for the purpose of any such determination.

Section 8.05. *Revocation of Consents; Future Holders Bound.* At any time prior to (but not after) the evidencing to the Trustee, as provided in Section 8.01, of the taking of any action by the Holders of the percentage of the aggregate principal amount of the Notes specified in this Indenture in connection with such action, any Holder of a Note that is shown by the evidence to be included in the Notes the Holders of which have consented to such action may, by filing written notice with a Responsible Trust Officer of the Trustee at its Corporate Trust Office and upon proof of holding as provided in Section 8.02, revoke such action so far as concerns such Note. Except as aforesaid, any such action taken by the Holder of any Note shall be conclusive and binding upon such Holder and upon all future Holders and owners of such Note and of any Notes issued in exchange or substitution therefor or upon registration of transfer thereof, irrespective of whether any notation in regard thereto is made upon such Note or any Note issued in exchange or substitution therefor or upon registration of transfer thereof.

ARTICLE 9 HOLDERS' MEETINGS

Section 9.01. *Purpose of Meetings.* A meeting of Holders may be called at any time and from time to time pursuant to the provisions of this Article 9 for any of the following purposes:

(a) to give any notice to the Company or to the Trustee or to give any directions to the Trustee permitted under this Indenture, or to consent to the waiving of any Default or Event of Default hereunder (in each case, as permitted under this Indenture) and its consequences, or to take any other action authorized to be taken by Holders pursuant to any of the provisions of Article 6;

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- (b) to remove the Trustee and nominate a successor trustee pursuant to the provisions of Article 7;
 - (c) to consent to the execution of an indenture or indentures supplemental hereto pursuant to the provisions of Section 10.02; or
 - (d) to take any other action authorized to be taken by or on behalf of the Holders of any specified aggregate principal amount of the Notes under any other provision of this Indenture or under applicable law.

Section 9.02. *Call of Meetings by Trustee.* The Trustee may at any time call a meeting of Holders to take any action specified in Section 9.01, to be held at such time and at such place as the Trustee shall determine. Notice of every meeting of the Holders, setting forth the time and the place of such meeting and in general terms the action proposed to be taken at such meeting and the establishment of any record date pursuant to Section 8.01, shall be mailed to Holders of such Notes at their addresses as they shall appear on the Note Register. Such notice shall also be mailed to the Company. Such notices shall be mailed not less than 20 nor more than 90 days prior to the date fixed for the meeting.

Any meeting of Holders shall be valid without notice if the Holders of all Notes then outstanding are present in person or by proxy or if notice is waived before or after the meeting by the Holders of all Notes then outstanding, and if the Company and the Trustee are either present by duly authorized representatives or have, before or after the meeting, waived notice.

Section 9.03. *Call of Meetings by Company or Holders.* In case at any time the Company, pursuant to a Board Resolution, or the Holders of at least 10% of the aggregate principal amount of the Notes then outstanding, shall have requested the Trustee to call a meeting of Holders, by written request setting forth in reasonable detail the action proposed to be taken at the meeting, and the Trustee shall not have mailed the notice of such meeting within 20 days after receipt of such request, then the Company or such Holders may determine the time and the place for such meeting and may call such meeting to take any action authorized in Section 9.01, by mailing notice thereof as provided in Section 9.02.

Section 9.04. *Qualifications for Voting.* To be entitled to vote at any meeting of Holders a Person shall (a) be a Holder of one or more Notes on the record date pertaining to such meeting or (b) be a Person appointed by an instrument in writing as proxy by a Holder of one or more Notes on the record date pertaining to such meeting. The only Persons who shall be entitled to be present or to speak at any meeting of Holders shall be the Persons entitled to vote at such meeting and their counsel and any representatives of the Trustee and its counsel and any representatives of the Company and its counsel.

Section 9.05. *Regulations.* Notwithstanding any other provisions of this Indenture, the Trustee may make such reasonable regulations as it may deem advisable for any meeting of Holders, in regard to proof of the holding of Notes and of the appointment of proxies, and in regard to the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidence of the right to vote, and such other matters concerning the conduct of the meeting as it shall think fit.

The Trustee shall, by an instrument in writing, appoint a temporary chairman of the meeting, unless the meeting shall have been called by the Company or by Holders as provided in Section 9.03, in which case the Company or the Holders calling the meeting, as the case may be, shall in like manner appoint a temporary chairman. A permanent chairman and a permanent secretary of the meeting shall be elected by vote of the Holders of a majority in aggregate principal amount of the Notes represented at the meeting and entitled to vote at the meeting.

Subject to the provisions of Section 8.04, at any meeting of Holders each Holder or proxyholder shall be entitled to one vote for each \$1,000 principal amount of Notes held or represented by him or her; *provided, however*, that no vote shall be cast or counted at any meeting in respect of any Note challenged as not outstanding and ruled by the chairman of the meeting to be not outstanding. The chairman of the meeting shall have no right to vote other than by virtue of Notes held by it or instruments in writing as aforesaid duly designating it as the proxy to vote on behalf of other Holders. Any meeting of Holders duly called pursuant to the provisions of Section 9.02 or Section 9.03 may be adjourned from time to time by the Holders of a majority of the aggregate principal amount of Notes represented at the meeting, whether or not constituting a quorum, and the meeting may be held as so adjourned without further notice.

Section 9.06. *Voting.* The vote upon any resolution submitted to any meeting of Holders shall be by written ballot on which shall be subscribed the signatures of the Holders or of their representatives by proxy and the outstanding aggregate principal amount of the Notes held or represented by them. The permanent chairman of the meeting shall appoint two inspectors of votes who shall count all votes cast at the meeting for or against any resolution and who shall make and file with the secretary of the meeting their verified written reports in duplicate of all votes cast at the meeting. A record in duplicate of the proceedings of each meeting of Holders shall be prepared by the secretary of the meeting and there shall be attached to said record the original reports of the inspectors of votes on any vote by ballot taken thereat and affidavits by one or more Persons having knowledge of the facts setting forth a copy of the notice of the meeting and showing that said notice was mailed as provided in Section 9.02. The record shall show the aggregate principal amount of the Notes voting in favor of or against any resolution. The record shall be signed and verified by the affidavits of the permanent chairman and secretary of the meeting and one of the duplicates shall be delivered to the Company and the other to the Trustee to be preserved by the Trustee, the latter to have attached thereto the ballots voted at the meeting.

Any record so signed and verified shall be conclusive evidence of the matters therein stated.

Section 9.07. *No Delay of Rights by Meeting.* Nothing contained in this Article 9 shall be deemed or construed to authorize or permit, by reason of any call of a meeting of Holders or any rights expressly or impliedly conferred hereunder to make such call, any hindrance or delay in the exercise of any right or rights conferred upon or reserved to the Trustee or to the Holders under any of the provisions of this Indenture or of the Notes.

ARTICLE 10
SUPPLEMENTAL INDENTURES

Section 10.01. *Supplemental Indentures Without Consent of Holders.* The Company, when authorized by the resolutions of the Board of Directors and the Trustee, at the Company's expense, may from time to time and at any time enter into an indenture or indentures supplemental hereto for one or more of the following purposes:

- (a) to cure any ambiguity, omission, defect or inconsistency;
- (b) to provide for the assumption by a Successor Company of the obligations of the Company or any Guarantor under this Indenture pursuant to Article 11;
- (c) to add Guarantees with respect to the Notes;
- (d) to secure the Notes;
- (e) to add to the covenants or Events of Default of the Company for the benefit of the Holders or surrender any right or power conferred upon the Company;
- (f) to make any change that does not adversely affect the rights of any Holder in any material respect;
- (g) in connection with any Merger Event, provide that the Notes are exchangeable into Reference Property and make such related changes to the terms of the Notes to the extent expressly required by Section 14.07;
- (h) to provide for the issuance of additional Notes in accordance with this Indenture; or
- (i) to conform the provisions of this Indenture or the Notes to the "Description of Notes" section of the Offering Memorandum.

Upon the written request of the Company, the Trustee is hereby authorized to join with the Company and the Parent in the execution of any such supplemental indenture, to make any further appropriate agreements and stipulations that may be therein contained, but the Trustee shall not be obligated to, but may in its discretion, enter into any supplemental indenture that affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

Any supplemental indenture authorized by the provisions of this Section 10.01 may be executed by the Company, the Parent and the Trustee without the consent of the Holders of any of the Notes at the time outstanding, notwithstanding any of the provisions of Section 10.02.

Section 10.02. *Supplemental Indentures with Consent of Holders.* With the consent (evidenced as provided in Article 8) of the Holders of at least a majority of the aggregate principal amount of the Notes then outstanding (determined in accordance with Article 8 and including, without limitation, consents obtained in connection with a repurchase of, or tender or exchange offer for, Notes), the Company and the Parent, when authorized by the resolutions of

the Board of Directors and the Trustee, at the Company's expense, may from time to time and at any time enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or any supplemental indenture or of modifying in any manner the rights of the Holders; *provided, however*, that, without the consent of each Holder of an outstanding Note affected, no such supplemental indenture shall:

- (a) reduce the amount of Notes whose Holders must consent to an amendment;
- (b) reduce the rate of or extend the stated time for payment of interest on any Note;
- (c) reduce the principal of or extend the Maturity Date of any Note;
- (d) make any change that adversely affects the exchange rights of any Notes;
- (e) reduce the Fundamental Change Repurchase Price of any Note or amend or modify in any manner adverse to the Holders the Company's obligation to pay the Fundamental Change Repurchase Price, whether through an amendment or waiver of provisions in the covenants, definitions or otherwise;
- (f) make any Note payable in a currency, or at a place of payment, other than that stated in the Note;
- (g) change the ranking of the Notes as to contractual right of payment;
- (h) make any change in the provisions of this Indenture set forth in Section 4.09 that adversely affects the right of any Holder of the Notes in any material respect or amends the terms of the Notes in a way that would result in a loss of an exemption from any of the Taxes specified in Section 4.09 or an exemption from any obligation to withhold or deduct Taxes so described thereunder unless the Company or relevant Guarantor agrees to pay Additional Amounts, if any, in respect thereof;
- (i) make any change in the amendment provisions that require each Holder's consent or in the waiver provisions;
- (j) other than in accordance with the provisions of this Indenture, release any Guarantor from its Note Guarantee; or
- (k) impair the contractual right of any Holder to receive payment of principal of and interest on such Holder's Notes on or after the due dates therefor or to institute suit for the enforcement of any payment on or with respect to such Holder's Notes.

Upon the written request of the Company, and upon the filing with the Trustee of evidence of the consent of Holders as aforesaid and subject to Section 10.05, the Trustee shall join with the Company and the Parent in the execution of such supplemental indenture unless such supplemental indenture affects the Trustee's own rights, duties or immunities under this Indenture or otherwise, in which case the Trustee may in its discretion, but shall not be obligated to, enter into such supplemental indenture.

Holders do not need to approve the particular form of any proposed supplemental indenture. It shall be sufficient if such Holders approve the substance of the proposed amendment. After any such supplemental indenture becomes effective, the Company shall provide to the Holders a notice briefly describing such supplemental indenture. However, the failure to give such notice to all the Holders, or any defect in the notice, will not impair or affect the validity of the supplemental indenture.

Section 10.03. *Effect of Supplemental Indentures.* Upon the execution of any supplemental indenture pursuant to the provisions of this Article 10, this Indenture shall be and be deemed to be modified and amended in accordance therewith and the respective rights, limitation of rights, obligations, duties and immunities under this Indenture of the Trustee, the Company, the Parent and the Holders shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modifications and amendments and all the terms and conditions of any such supplemental indenture shall be and be deemed to be part of the terms and conditions of this Indenture for any and all purposes.

Section 10.04. *Notation on Notes.* Notes authenticated and delivered after the execution of any supplemental indenture pursuant to the provisions of this Article 10 may, at the Company's expense, bear a notation in form approved by the Trustee as to any matter provided for in such supplemental indenture. If the Company or the Trustee shall so determine, new Notes so modified as to conform, in the opinion of the Trustee and the Board of Directors, to any modification of this Indenture contained in any such supplemental indenture may, at the Company's expense, be prepared and executed by the Company, authenticated by the Trustee (or an authenticating agent duly appointed by the Trustee pursuant to Section 18.10) and delivered in exchange for the Notes then outstanding, upon surrender of such Notes then outstanding.

Section 10.05. *Evidence of Compliance of Supplemental Indenture to Be Furnished Trustee.* In addition to the documents required by Section 18.05, the Trustee shall receive an Officer's Certificate and an Opinion of Counsel as conclusive evidence that any supplemental indenture executed pursuant hereto complies with the requirements of this Article 10 and is permitted or authorized by this Indenture.

ARTICLE 11

CONSOLIDATION, MERGER, SALE, CONVEYANCE AND LEASE

Section 11.01. *Company May Consolidate, Etc. on Certain Terms.* Subject to the provisions of Section 11.02, neither the Company nor the Parent shall consolidate with, merge with or into, or sell, convey, transfer or lease all or substantially all of its properties and assets to another Person, unless:

(a) the resulting, surviving or transferee Person (the "**Successor Company**"), if not the Company or the Parent, as applicable, shall be a corporation organized and existing under the laws of the United States of America, any State thereof or the District of Columbia, and the Successor Company (if not the Company or the Parent) shall expressly assume, by supplemental indenture all of the obligations of the Company under the Notes and this Indenture or the Parent's obligations under its Notes Guarantee, as applicable; and

(b) immediately after giving effect to such transaction, no Default or Event of Default shall have occurred and be continuing under this Indenture; and

For purposes of this Section 11.01, the sale, conveyance, transfer or lease of all or substantially all of the properties and assets of one or more Subsidiaries of the Company or one or more Subsidiaries of the Parent to another Person, which properties and assets, if held by the Company or the Parent instead of such Subsidiaries, would constitute all or substantially all of the properties and assets of the Company or the Parent, as the case may be, on a consolidated basis, shall be deemed to be the sale, conveyance, transfer or lease of all or substantially all of the properties and assets of the Company or the Parent, as the case may be, to another Person.

Section 11.02. *Successor Corporation to Be Substituted.* In case of any such consolidation, merger, sale, conveyance, transfer or lease and upon the assumption by the Successor Company, by supplemental indenture, executed and delivered to the Trustee and satisfactory in form to the Trustee, of the due and punctual payment of the principal of and accrued and unpaid interest on all of the Notes, the due and punctual delivery or payment, as the case may be, of any consideration due upon exchange of the Notes and the due and punctual performance of all of the covenants and conditions of this Indenture to be performed by the Company and the Parent, such Successor Company (if not the Company or the Parent) shall succeed to and, except in the case of a lease of all or substantially all of the Company's properties and assets, shall be substituted for the Company, with the same effect as if it had been named herein as the party of the first part. Such Successor Company thereupon may cause to be signed, and may issue either in its own name or in the name of the Company any or all of the Notes issuable hereunder which theretofore shall not have been signed by the Company and delivered to the Trustee; and, upon the order of such Successor Company instead of the Company and subject to all the terms, conditions and limitations in this Indenture prescribed, the Trustee shall authenticate and shall deliver, or cause to be authenticated and delivered, any Notes that previously shall have been signed and delivered by the Officers of the Company to the Trustee for authentication, and any Notes that such Successor Company thereafter shall cause to be signed and delivered to the Trustee for that purpose. All the Notes so issued shall in all respects have the same legal rank and benefit under this Indenture as the Notes theretofore or thereafter issued in accordance with the terms of this Indenture as though all of such Notes had been issued at the date of the execution hereof. In the event of any such consolidation, merger, sale, conveyance or transfer (but not in the case of a lease), upon compliance with this Article 11 the Person named as the "Company" in the first paragraph of this Indenture (or any successor that shall thereafter have become such in the manner prescribed in this Article 11) may be dissolved, wound up and liquidated at any time thereafter and, except in the case of a lease, such Person shall be released from its liabilities as obligor and maker of the Notes and from its obligations under this Indenture and the Notes.

In case of any such consolidation, merger, sale, conveyance, transfer or lease, such changes in phraseology and form (but not in substance) may be made in the Notes thereafter to be issued as may be appropriate.

ARTICLE 12
IMMUNITY OF INCORPORATORS, STOCKHOLDERS, OFFICERS AND DIRECTORS

Section 12.01. *Indenture and Notes Solely Corporate Obligations.* No recourse for the payment of the principal of or accrued and unpaid interest on any Note, nor for any claim based thereon or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or agreement of the Company or the Parent in this Indenture or in any supplemental indenture or in any Note or any Note Guarantee, nor because of the creation of any indebtedness represented thereby, shall be had against any incorporator, stockholder, employee, agent, Officer or director or Subsidiary, as such, past, present or future, of the Company, the Parent or of any successor corporation, either directly or through the Company or any successor corporation, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise; it being expressly understood that all such liability is hereby expressly waived and released as a condition of, and as a consideration for, the execution of this Indenture and the issue of the Notes.

ARTICLE 13
NOTE GUARANTEE

Section 13.01. *Note Guarantees.* Each Guarantor acknowledges and agrees that it receives substantial benefits from the Company and that such Guarantor is providing its guarantee (the “**Note Guarantee**”) for good and valuable consideration, including, without limitation, such substantial benefits. Accordingly, subject to the provisions of this Article 13, each Guarantor hereby unconditionally guarantees to each Holder of a Note authenticated and delivered by the Trustee and its successors and assigns that: (i) the principal of (including the Fundamental Change Repurchase Price, as the case may be, pursuant to Article 15 or Article 16, as applicable), premium, if any, interest and Additional Interest, if any, on the Notes and any cash and shares of Common Stock, if any, due upon exchange of the Notes in accordance with Article 14, in each case, shall be duly and punctually paid in full when due, whether at the Maturity Date, upon acceleration, upon redemption, upon repurchase in connection with a Fundamental Change or otherwise or upon exchange, and interest on overdue principal, premium, if any, Additional Interest, if any, and (to the extent permitted by law) interest on any overdue interest, if any, on the Notes and all other obligations of the Company to the Holders or the Trustee hereunder or under the Notes (including fees, expenses or other) shall be promptly paid in full or performed, all in accordance with the terms hereof; and (ii) in case of any extension of time of payment or renewal of any Notes or any of such other obligations, the same shall be promptly paid in full when due or performed in accordance with the terms of the extension or renewal, whether at the Maturity Date, by acceleration, call for redemption, upon repurchase in connection with a Fundamental Change or otherwise or exchange, subject, however, in the case of clauses (i) and (ii) above, to the limitations set forth in Section 13.03 (collectively, the “**Note Guarantee Obligations**”).

Subject to the provisions of this Article 13, each Guarantor hereby agrees that its Note Guarantee hereunder shall be unconditional, irrespective of the validity, regularity or enforceability of the Notes or this Indenture, the absence of any action to enforce the same, any waiver or consent by any Holder of the Notes with respect to any thereof, the entry of any judgment against the Company, any action to enforce the same or any other circumstance which

might otherwise constitute a legal or equitable discharge or defense of such Guarantor. Each Guarantor hereby waives and relinquishes: (a) any right to require the Trustee, the Holders or the Company (each, a “**Benefited Party**”) to proceed against the Company or any other Person or to proceed against or exhaust any security held by a Benefited Party at any time or to pursue any other remedy in any secured party’s power before proceeding against such Guarantor; (b) any defense that may arise by reason of the incapacity, lack of authority, death or disability of any other Person or Persons or the failure of a Benefited Party to file or enforce a claim against the estate (in administration, bankruptcy or any other proceeding) of any other Person or Persons; (c) demand, protest and notice of any kind (except as expressly required by this Indenture), including but not limited to notice of the existence, creation or incurring of any new or additional indebtedness or obligation or of any action or non-action on the part of such Guarantor, the Company, any Benefited Party, any creditor of such Guarantor or the Company or on the part of any other Person whomsoever in connection with any obligations the performance of which are hereby guaranteed; (d) any defense based upon an election of remedies by a Benefited Party, including but not limited to an election to proceed against such Guarantor for reimbursement; (e) any defense based upon any statute or rule of law which provides that the obligation of a surety must be neither larger in amount nor in other respects more burdensome than that of the principal; (f) any defense arising because of a Benefited Party’s election, in any proceeding instituted under the Bankruptcy Law, of the application of Section 1111(b)(2) of the Bankruptcy Code; and (g) any defense based on any borrowing or grant of a security interest under Section 364 of the Bankruptcy Code. Each Guarantor hereby covenants that, except as otherwise provided therein, its Note Guarantee shall not be discharged except by payment in full of all Note Guarantee Obligations, including the principal, premium, if any, and interest on the Notes, the cash and any shares of Common Stock due upon exchange of the Notes and all other costs provided for under this Indenture or as provided in Article 7.

If any Holder or the Trustee is required by any court or otherwise to return to either the Company or a Guarantor, or any trustee or similar official acting in relation to either the Company or a Guarantor, any amount paid by the Company or such Guarantor to the Trustee or such Holder, such Note Guarantee, to the extent theretofore discharged, shall be reinstated in full force and effect. Each Guarantor agrees that it shall not be entitled to any right of subrogation in relation to the Holders in respect of any Note Guarantee Obligations hereby until payment in full of all such obligations guaranteed hereby. Each Guarantor agrees that, as between it, on the one hand, and the Holders of Notes and the Trustee, on the other hand, (x) the maturity of the obligations guaranteed hereby may be accelerated as provided in Article 6 for the purposes hereof, notwithstanding any stay, injunction or other prohibition preventing such acceleration in respect of the Note Guarantee Obligations, and (y) in the event of any acceleration of such obligations as provided in Article 6, such Note Guarantee Obligations (whether or not due and payable) shall forthwith become due and payable by such Guarantor for the purpose of its Note Guarantee.

Section 13.02. *Execution and Delivery of Guarantee.* To evidence the Note Guarantee of the Parent set forth in Section 13.01, the Parent agrees that a notation of the Note Guarantee substantially in the form included in the Form of Note attached hereto as Exhibit A shall be endorsed on each Note authenticated and delivered by the Trustee and that this Indenture shall be executed on behalf of the Parent by an officer of the Parent.

The Parent agrees that the Note Guarantee of the Parent set forth in this Article 13 shall remain in full force and effect and apply to all the Notes notwithstanding any failure to endorse on each Note a notation of such Note Guarantee.

If an Officer whose facsimile signature is on a Note or a notation of Note Guarantee no longer holds that office at the time the Trustee authenticates the Note on which the Note Guarantee of the Parent is endorsed, such Note Guarantee shall be valid nevertheless.

The delivery of any Note by the Trustee, after the authentication thereof hereunder, shall constitute due delivery of the Note Guarantee of the Parent set forth in this Indenture on behalf of the Parent.

Section 13.03. *Limitation of Guarantor's Liability; Certain Bankruptcy Events.* (a) Each Guarantor, and by its acceptance hereof each Holder, hereby confirms that it is the intention of all such parties that the Note Guarantee Obligations of such Guarantor pursuant to its Note Guarantee not constitute a fraudulent transfer or conveyance for purposes of any Bankruptcy Law, the Uniform Fraudulent Conveyance Act, the Uniform Fraudulent Transfer Act or any similar federal or state law. To effectuate the foregoing intention, the Holders and each Guarantor hereby irrevocably agree that the Note Guarantee Obligations of such Guarantor under this Article 13 shall be limited to the maximum amount as shall, after giving effect to all other contingent and fixed liabilities of such Guarantor, result in the Note Guarantee Obligations of such Guarantor under its Note Guarantee not constituting a fraudulent transfer or conveyance.

(b) Each Guarantor hereby covenants and agrees, to the fullest extent that it may do so under applicable law, that in the event of the insolvency, bankruptcy, dissolution, liquidation or reorganization of the Company, such Guarantor shall not file (or join in any filing of), or otherwise seek to participate in the filing of, any motion or request seeking to stay or to prohibit (even temporarily) execution on the Note Guarantee and hereby waives and agrees not to take the benefit of any such stay of execution, whether under Section 362 or 105 of the Bankruptcy Law or otherwise.

Section 13.04. *Application of Certain Terms and Provisions to Guarantors.* (a) For purposes of any provision of this Indenture which provides for the delivery by a Guarantor of an Officer's Certificate and/or an Opinion of Counsel, the definitions of such terms in Section 1.01 shall apply to such Guarantor as if references therein to the Company were references to such Guarantor.

(b) Any request, direction, order or demand which by any provision of this Indenture is to be made by a Guarantor shall be sufficient if evidenced as described in Section 18.03 as if references therein to the Company were references to such Guarantor.

(c) Any notice or demand which by any provision of this Indenture is required or permitted to be given or served by the Trustee or by the Holders of Notes to or on a Guarantor may be given or served as described in Section 18.03 as if references therein to the Company were references to such Guarantor.

(d) Upon any demand, request or application by a Guarantor to the Trustee to take any action under this Indenture, such Guarantor shall furnish to the Trustee such certificates and opinions as are required in Section 17.05 as if all references therein to the Company were references to such Guarantor.

Section 13.05. *Release of Guarantees.* The Note Guarantee of any Subsidiary Guarantor shall terminate and be of no further force or effect and such Guarantor shall be deemed to be automatically released from all obligations under this Article 13 upon any of the following:

- (1) upon the sale, disposition, exchange or other transfer (including through merger, consolidation, amalgamation or otherwise) of the capital stock (including any sale, disposition or other transfer following which the applicable Subsidiary Guarantor is no longer a Restricted Subsidiary), of the applicable Subsidiary Guarantor if such sale, disposition, exchange or other transfer is made in a manner not in violation of this Indenture;
- (2) upon the designation of the Subsidiary Guarantor as an Unrestricted Subsidiary under this Indenture;
- (3) if the Subsidiary Guarantor is dissolved or liquidated;
- (4) upon the release or discharge of the guarantee of any other Indebtedness that resulted in the obligation to provide a Guarantee of the Notes;
- (5) if the Company exercises its covenant defeasance option under Article 17 or if the Company's obligations under this Indenture are discharged in accordance with the terms of this Indenture.

A Restricted Subsidiary's Note Guarantee will also be automatically released upon the applicable Subsidiary ceasing to be a Subsidiary as a result of any foreclosure of any pledge or security interest securing outstanding amounts under any Credit Facility or other exercise of remedies thereunder.

ARTICLE 14 *EXCHANGE OF NOTES*

Section 14.01. *Exchange Privilege.* Subject to and upon compliance with the provisions of this Article 14, each Holder of a Note shall have the right, at such Holder's option, to exchange all or any portion (if the portion to be exchanged is \$1,000 principal amount or an integral multiple thereof) of such Note at any time prior to the close of business on the third Business Day immediately preceding the Maturity Date at an initial exchange rate of 121.1387 shares of Common Stock (subject to adjustment as provided in this Article 14, the "**Exchange Rate**") per \$1,000 principal amount of Notes (subject to, and in accordance with, the settlement provisions of Section 14.02, the "**Exchange Obligation**").

Section 14.02. *Exchange Procedure; Settlement Upon Exchange.*

(a) Subject to this Section 14.02, Section 14.03(b), Section 14.04(g) and Section 14.07(a), on the third (or, if the T+2 Effective Date has occurred on or before the relevant Exchange Date, the second) Business Day following the Exchange Date of any Note, the Company shall deliver to the exchanging Holder, in respect of each \$1,000 principal amount of Notes being exchanged, shares of Common Stock, together, if applicable, with cash in lieu of delivering any fractional share of Common Stock in accordance with subsection (j) of this Section 14.02.

(b) Subject to Section 14.02(e), before any Holder of a Note shall be entitled to exchange a Note as set forth above, such Holder shall (i) in the case of a Global Note, comply with the procedures of the Depository in effect at that time and, if required, pay funds equal to interest payable on the next Interest Payment Date as set forth in Section 14.02(h) and (ii) in the case of a Physical Note (1) complete, manually sign and deliver an irrevocable notice to the Exchange Agent as set forth in the Form of Notice of Exchange (or a facsimile thereof) (a “**Notice of Exchange**”) at the office of the Exchange Agent and state in writing therein the principal amount of Notes to be exchanged and the name or names (with addresses) in which such Holder wishes the certificate or certificates for (or, if applicable, book-entries representing) any shares of Common Stock to be delivered upon settlement of the Exchange Obligation to be registered, (2) surrender such Notes, duly endorsed to the Company or in blank (and accompanied by appropriate endorsement and transfer documents), at the office of the Exchange Agent, (3) if required, furnish appropriate endorsements and transfer documents and (4) if required, pay funds equal to interest payable on the next Interest Payment Date as set forth in Section 14.02(h). The Trustee (and if different, the Exchange Agent) shall notify the Company of any exchange pursuant to this Article 14 on the Exchange Date for such exchange. No Notice of Exchange with respect to any Notes may be surrendered by a Holder thereof if such Holder has also delivered a Fundamental Change Repurchase Notice to the Company in respect of such Notes and has not validly withdrawn such Fundamental Change Repurchase Notice in accordance with Section 15.02.

Subject, if applicable, to the rules of the relevant Depository, if more than one Note shall be surrendered for exchange at one time by the same Holder, the Exchange Obligation with respect to such Notes shall be computed on the basis of the aggregate principal amount of the Notes (or specified portions thereof to the extent permitted thereby) so surrendered.

(c) A Note shall be deemed to have been exchanged immediately prior to the close of business on the date (the “**Exchange Date**”) that the Holder has complied with the requirements set forth in subsection (b) above. If any shares of Common Stock are due to exchanging Holders, the Parent shall issue or cause to be issued, and deliver (if applicable) to the Exchange Agent or to such Holder, or such Holder’s nominee or nominees, the full number of shares of Common Stock to which such Holder shall be entitled, in certificate form or in book-entry format, in satisfaction of the Company’s Exchange Obligation.

(d) In case any Note shall be surrendered for partial exchange, the Company shall execute and the Trustee shall authenticate and deliver to or upon the written order of the Holder of the Note so surrendered a new Note or Notes in authorized denominations in an aggregate principal amount equal to the unexchanged portion of the surrendered Note, without payment of any service charge by the exchanging Holder but, if required by the Company or Trustee, with payment of a sum sufficient to cover any documentary, stamp or similar issue or transfer tax or similar governmental charge required by law or that may be imposed in connection therewith as a result of the name of the Holder of the new Notes issued upon such exchange being different from the name of the Holder of the old Notes surrendered for such exchange.

(e) If a Holder submits a Note for exchange, the Company shall pay any documentary, stamp or similar issue or transfer tax due or similar governmental charge required by law or that may be imposed on the issue of any shares of Common Stock upon exchange, unless the tax is due because the Holder requests such shares to be issued in a name other than the Holder's name, in which case the Holder shall pay that tax. The Exchange Agent may refuse to deliver the certificates (or, if applicable, effect book entries) representing the shares of Common Stock being issued in a name other than the Holder's name until the Trustee receives a sum sufficient to pay any tax that is due by such Holder in accordance with the immediately preceding sentence.

(f) Except as provided in Section 14.04, no adjustment shall be made for dividends on any shares of Common Stock issued upon the exchange of any Note as provided in this Article 14.

(g) Upon the exchange of an interest in a Global Note, the Trustee, or the Custodian at the direction of the Trustee, shall make a notation on such Global Note as to the reduction in the principal amount represented thereby. The Company shall notify the Trustee in writing of any exchange of Notes effected through any Exchange Agent other than the Trustee.

(h) Upon exchange, a Holder shall not receive any separate cash payment for accrued and unpaid interest, if any, except as set forth below. The Company's settlement of the full Exchange Obligation shall be deemed to satisfy in full its obligation to pay the principal amount of the Note and accrued and unpaid interest, if any, to, but not including, the relevant Exchange Date. As a result, accrued and unpaid interest, if any, to, but not including, the relevant Exchange Date shall be deemed to be paid in full rather than cancelled, extinguished or forfeited. Notwithstanding the foregoing, if Notes are exchanged after the close of business on a Regular Record Date, Holders of such Notes as of the close of business on such Regular Record Date will receive, on or before the corresponding Interest Payment Date, the full amount of interest payable on such Notes on such Interest Payment Date notwithstanding the exchange. Notes surrendered for exchange during the period from the close of business on any Regular Record Date to the open of business on the immediately following Interest Payment Date must be accompanied by funds equal to the amount of interest payable on such Interest Payment Date on the Notes so exchanged; *provided* that no such payment shall be required (1) for exchanges following the Regular Record Date immediately preceding the Maturity Date; (2) if the Company has specified a Fundamental Change Repurchase Date that is after such Regular Record Date and on or prior to the Business Day immediately following the corresponding Interest Payment Date; or (3) to the extent of any Defaulted Amounts, if any Defaulted Amounts exists at the time of exchange with respect to such Note. Therefore, for the avoidance of doubt, all Holders of record on the Regular Record Date immediately preceding the Maturity Date shall receive the full interest payment due on the Maturity Date in cash regardless of whether their Notes have been exchanged following such Regular Record Date.

(i) The Person in whose name the shares of Common Stock shall be issuable upon exchange shall be treated as a stockholder of record as of the close of business on the relevant Exchange Date and such Person shall no longer be a Holder of such Notes surrendered for exchange.

(j) The Company shall not deliver any fractional share of Common Stock upon exchange of the Notes and shall instead pay cash in lieu of delivering any fractional share of Common Stock issuable upon exchange based on the Last Reported Sale Price of the Common Stock for the relevant Exchange Date.

(k) Notwithstanding any other provision of this Indenture, if the Company or other applicable withholding agent pays withholding taxes or backup withholding on behalf of a Holder or beneficial owner as a result of an adjustment to the Exchange Rate, the Company or other applicable withholding agent may, at its option, set off such payments against payments of shares of Common Stock on the Note (or any payments on the Common Stock) or sales proceeds received by or other funds or assets of the Holder or beneficial owner.

Section 14.03. *Increased Exchange Rate Applicable to Certain Notes Surrendered in Connection with Make-Whole Fundamental Changes.*

(a) If the Effective Date of a Make-Whole Fundamental Change occurs prior to the Maturity Date and a Holder elects to exchange its Notes in connection with such Make-Whole Fundamental Change, the Company shall, under the circumstances set forth below, increase the Exchange Rate for the Notes so surrendered for exchange by a number of additional shares of Common Stock (the “**Additional Shares**”), as described below. An exchange of Notes shall be deemed for these purposes to be “in connection with” such Make-Whole Fundamental Change if the relevant Notice of Exchange is received by the Exchange Agent from, and including, the Effective Date of the Make-Whole Fundamental Change up to, and including, the Business Day immediately prior to the related Fundamental Change Repurchase Date (or, in the case of a Make-Whole Fundamental Change that would have been a Fundamental Change but for the *proviso* in clause (b) of the definition of Fundamental Change, the 35th Trading Day immediately following the Effective Date of such Make-Whole Fundamental Change) (such period, the “**Make-Whole Fundamental Change Period**”).

(b) If, at the effective time of a Make-Whole Fundamental Change described in clause (b) of the definition of Fundamental Change, the Reference Property following such Make-Whole Fundamental Change is composed entirely of cash, then for any exchange of Notes following the Effective Date of such Make-Whole Fundamental Change, the Exchange Obligation shall be calculated based solely on the Stock Price for the transaction and shall be deemed to be an amount of cash per \$1,000 principal amount of exchanged Notes equal to the applicable Exchange Rate (including any adjustment for Additional Shares), *multiplied by* such Stock Price. The Company shall notify the Holders of Notes of the Effective Date of any Make-Whole Fundamental Change and issue a press release announcing such Effective Date no later than five Business Days after such Effective Date.

(c) The number of Additional Shares, if any, by which the Exchange Rate shall be increased shall be determined by reference to the table below, based on the date on which the Make-Whole Fundamental Change occurs or becomes effective (the “**Effective Date**”), and the price (the “**Stock Price**”) paid (or deemed to be paid) per share of Common Stock in the Make-

Whole Fundamental Change. If the holders of the Common Stock receive in exchange for their Common Stock only cash in a Make-Whole Fundamental Change described in clause (b) of the definition of Fundamental Change, the Stock Price shall be the cash amount paid per share. In all other cases, the Stock Price shall be the average of the Last Reported Sale Price per share of Common Stock over the ten Trading Day period ending on, and including, the Trading Day immediately preceding the Effective Date of the Make-Whole Fundamental Change. The Board of Directors shall make appropriate adjustments to the Stock Price, in its good faith determination, to account for any adjustment to the Exchange Rate that becomes effective, or any event requiring an adjustment to the Exchange Rate where the Ex-Dividend Date, Effective Date (as such term is used in Section 14.04) or expiration date of the event occurs during such 10 consecutive Trading Day period.

(d) The Stock Prices set forth in the column headings of the table below shall be adjusted as of any date on which the Exchange Rate of the Notes is otherwise adjusted pursuant to Section 14.04. The adjusted Stock Prices shall equal the Stock Prices applicable immediately prior to such adjustment, multiplied by a fraction, the numerator of which is the Exchange Rate immediately prior to such adjustment giving rise to the Stock Price adjustment and the denominator of which is the Exchange Rate as so adjusted. The number of Additional Shares set forth in the table below shall be adjusted in the same manner and at the same time as the Exchange Rate as set forth in Section 14.04.

(e) The following table sets forth the number of Additional Shares of Common Stock by which the Exchange Rate shall be increased per \$1,000 principal amount of Notes pursuant to this Section 14.03 for each Stock Price and Effective Date set forth below:

Effective Date	Stock Price											
	\$6.35	\$7.00	\$8.00	\$8.26	\$10.00	\$12.00	\$14.00	\$16.00	\$18.00	\$20.00	\$22.00	\$24.00
January 17, 2017	36.3416	29.1463	21.0137	19.3857	11.4008	6.3399	3.4863	1.8136	0.8286	0.2832	0.0293	0.0000
March 1, 2018	36.3416	27.8562	19.4203	17.7627	9.8566	5.1292	2.6220	1.2338	0.4534	0.0489	0.0000	0.0000
March 1, 2019	36.3416	26.4186	17.4469	15.7315	7.9035	3.6677	1.6532	0.6407	0.1273	0.0000	0.0000	0.0000
March 1, 2020	36.3416	24.0090	13.8995	12.0674	4.5347	1.4670	0.4354	0.0431	0.0000	0.0000	0.0000	0.0000
March 1, 2021	36.3416	21.7184	3.8613	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000

The exact Stock Prices and Effective Dates may not be set forth in the table above, in which case:

(1) if the Stock Price is between two Stock Prices in the table above or the Effective Date is between two Effective Dates in the table, the number of Additional Shares shall be determined by a straight-line interpolation between the number of Additional Shares set forth for the higher and lower Stock Prices and the earlier and later Effective Dates, as applicable, based on a 365- or 366-day year, as applicable;

(2) if the Stock Price is greater than \$24.00 per share (subject to adjustment in the same manner as the Stock Prices set forth in the column headings of the table above pursuant to subsection (d) above), no Additional Shares shall be added to the Exchange Rate; and

(3) if the Stock Price is less than \$6.35 per share (subject to adjustment in the same manner as the Stock Prices set forth in the column headings of the table above pursuant to subsection (d) above), no Additional Shares shall be added to the Exchange Rate.

Notwithstanding the foregoing, in no event shall the Exchange Rate per \$1,000 principal amount of Notes exceed 157.4803 shares of Common Stock, subject to adjustment in the same manner as the Exchange Rate pursuant to Section 14.04.

(f) Nothing in this Section 14.03 shall prevent an adjustment to the Exchange Rate pursuant to Section 14.04 in respect of a Make-Whole Fundamental Change.

Section 14.04. *Adjustment of Exchange Rate.* The Exchange Rate shall be adjusted from time to time by the Company if any of the following events occurs, except that the Company shall not make any adjustments to the Exchange Rate if Holders of the Notes participate (other than in the case of a share split or share combination described in Section 14.04(a) or Section 14.04(e)), at the same time and upon the same terms as holders of the Common Stock and solely as a result of holding the Notes, in any of the transactions described in this Section 14.04, without having to exchange their Notes, as if they held a number of shares of Common Stock equal to the Exchange Rate, *multiplied by* the principal amount (expressed in thousands) of Notes held by such Holder.

(a) If the Parent exclusively issues shares of Common Stock as a dividend or distribution on shares of the Common Stock, or if the Parent effects a share split or share combination, the Exchange Rate shall be adjusted based on the following formula:

$$ER' = ER_0 \times \frac{OS'}{OS_0}$$

where,

- ER₀ = the Exchange Rate in effect immediately prior to the open of business on the Ex-Dividend Date of such dividend or distribution, or immediately prior to the open of business on the Effective Date of such share split or share combination, as applicable;
- ER' = the Exchange Rate in effect immediately after the open of business on such Ex-Dividend Date or Effective Date;
- OS₀ = the number of shares of Common Stock outstanding immediately prior to the open of business on such Ex-Dividend Date or Effective Date; and
- OS' = the number of shares of Common Stock outstanding immediately after giving effect to such dividend, distribution, share split or share combination.

Any adjustment made under this Section 14.04(a) shall become effective immediately after the open of business on the Ex-Dividend Date for such dividend or distribution, or immediately after the open of business on the Effective Date for such share split or share combination, as applicable. If any dividend or distribution of the type described in this Section 14.04(a) is declared but not so paid or made, the Exchange Rate shall be immediately readjusted, effective as of the date the Board of Directors determines not to pay such dividend or distribution, to the Exchange Rate that would then be in effect if such dividend or distribution had not been declared.

(b) If the Parent issues to all or substantially all holders of the Common Stock any rights, options or warrants entitling them, for a period of not more than 45 calendar days after the announcement date of such issuance, to subscribe for or purchase shares of the Common Stock at a price per share that is less than the average of the Last Reported Sale Price per share of the Common Stock for the 10 consecutive Trading Day period ending on, and including, the Trading Day immediately preceding the date of announcement of such issuance, the Exchange Rate shall be increased based on the following formula:

$$ER' = ER_0 \times \frac{OS_0 + X}{OS_0 + Y}$$

where,

ER₀ = the Exchange Rate in effect immediately prior to the open of business on the Ex-Dividend Date for such issuance;

ER' = the Exchange Rate in effect immediately after the open of business on such Ex-Dividend Date;

OS₀ = the number of shares of Common Stock outstanding immediately prior to the open of business on such Ex-Dividend Date;

X = the total number of shares of Common Stock issuable pursuant to such rights, options or warrants; and

Y = the number of shares of Common Stock equal to the aggregate price payable to exercise such rights, options or warrants, *divided by* the average of the Last Reported Sale Price per share of the Common Stock over the 10 consecutive Trading Day period ending on, and including, the Trading Day immediately preceding the date of announcement of the issuance of such rights, options or warrants.

Any increase made under this Section 14.04(b) shall be made successively whenever any such rights, options or warrants are issued and shall become effective immediately after the open of business on the Ex-Dividend Date for such issuance. To the extent that shares of the Common Stock are not delivered after the expiration of such rights, options or warrants, the Exchange Rate shall be decreased to the Exchange Rate that would then be in effect had the increase with respect to the issuance of such rights, options or warrants been made on the basis of delivery of only the number of shares of Common Stock actually delivered upon exercise of such rights, options or warrants. If such rights, options or warrants are not so issued, the Exchange Rate shall be decreased to the Exchange Rate that would then be in effect if such Ex-Dividend Date for such issuance had not occurred.

For purposes of this Section 14.04(b), in determining whether any rights, options or warrants entitle the holders to subscribe for or purchase shares of the Common Stock at less than such average of the Last Reported Sale Price per share of the Common Stock for the 10 consecutive Trading Day period ending on, and including, the Trading Day immediately preceding the date of announcement of such issuance, and in determining the aggregate offering price of such shares of Common Stock, there shall be taken into account any consideration received by the Parent for such rights, options or warrants and any amount payable on exercise or conversion thereof, the value of such consideration, if other than cash, to be determined by the Board of Directors.

(c) If the Parent distributes shares of its Capital Stock, evidences of its indebtedness, other assets or property of the Parent or rights, options or warrants to acquire its Capital Stock or other securities, to all or substantially all holders of the Common Stock, excluding (i) dividends, distributions or issuances as to which an adjustment was effected pursuant to Section 14.04(a) or Section 14.04(b), (ii) dividends or distributions paid exclusively in cash as to which the provisions set forth in Section 14.04(d) shall apply, (iii) Spin-Offs as to which the provisions set forth below in this Section 14.04(c) shall apply, and (iv) rights issued or otherwise distributed pursuant to a stockholder rights plan, except to the extent provided in Section 14.10 (any of such shares of Capital Stock, evidences of indebtedness, other assets or property or rights, options or warrants to acquire Capital Stock or other securities, the “**Distributed Property**”), then the Exchange Rate shall be increased based on the following formula:

$$ER' = ER_0 \times \frac{SP_0}{SP_0 - FMV}$$

where,

- ER₀ = the Exchange Rate in effect immediately prior to the open of business on the Ex-Dividend Date for such distribution;
- ER' = the Exchange Rate in effect immediately after the open of business on such Ex-Dividend Date;
- SP₀ = the average of the Last Reported Sale Price per share of Common Stock over the 10 consecutive Trading Day period ending on, and including, the Trading Day immediately preceding the Ex-Dividend Date for such distribution; and
- FMV = the fair market value (as determined by the Board of Directors) of the Distributed Property with respect to each outstanding share of the Common Stock on the Ex-Dividend Date for such distribution.

Any increase made under the portion of this Section 14.04(c) above shall become effective immediately after the open of business on the Ex-Dividend Date for such distribution. If such distribution is not so paid or made, the Exchange Rate shall be decreased to the Exchange Rate that would then be in effect if such distribution had not been declared. Notwithstanding the foregoing, if “FMV” (as defined above) is equal to or greater than “SP₀” (as defined above), in lieu of the foregoing increase, each Holder of a Note shall receive, in respect of each \$1,000 principal amount thereof, at the same time and upon the same terms as holders of the Common

Stock receive the Distributed Property, the amount and kind of Distributed Property such Holder would have received if such Holder owned a number of shares of Common Stock equal to the Exchange Rate in effect on the Ex-Dividend Date for the distribution. If the Board of Directors determines the “FMV” (as defined above) of any distribution for purposes of this Section 14.04(c) by reference to the actual or when-issued trading market for any securities, it shall in doing so consider the prices in such market over the same period used in computing the Last Reported Sale Price per share of Common Stock over the 10 consecutive Trading Day period ending on, and including, the Trading Day immediately preceding the Ex-Dividend Date for such distribution.

With respect to an adjustment pursuant to this Section 14.04(c) where there has been a payment of a dividend or other distribution on the Common Stock of shares of Capital Stock of any class or series, or similar equity interest, of or relating to a Subsidiary or other business unit of the Parent, that are, or, when issued, will be, listed or admitted for trading on a U.S. national securities exchange (a “**Spin-Off**”), the Exchange Rate shall be increased based on the following formula:

$$ER' = ER_0 \times \frac{FMV_0 + MP_0}{MP_0}$$

where,

- ER0 = the Exchange Rate in effect immediately prior to the end of the Valuation Period;
- ER' = the Exchange Rate in effect immediately after the end of the Valuation Period;
- FMV0 = the average of the Last Reported Sale Price per share of the Capital Stock or similar equity interest distributed to holders of the Common Stock applicable to one share of the Common Stock (determined by reference to the definition of Last Reported Sale Price as set forth in Section 1.01 as if references therein to Common Stock were to such Capital Stock or similar equity interest) over the first 10 consecutive Trading Day period after, and including, the Ex-Dividend Date of the Spin-Off or, if later, the first day on which such Capital Stock or similar equity interest begins trading (such 10 consecutive Trading Day period, the “**Valuation Period**”); and
- MP0 = the average of the Last Reported Sale Price per share of the Common Stock over the Valuation Period.

The adjustment to the Exchange Rate under the preceding paragraph shall occur at the close of business on the last Trading Day of the Valuation Period; *provided* that if the relevant Exchange Date for the exchange of any Note occurs during the Valuation Period, references to “10” in the preceding paragraph shall be deemed to be replaced with such lesser number of Trading Days as have elapsed from, and including the first day of the Valuation Period for such Spin-Off to, and including, the Exchange Date in determining the Exchange Rate applicable to such exchange.

(d) If any cash dividend or distribution is made to all or substantially all holders of the Common Stock (excluding any dividend or distribution in connection with the Company's liquidation, dissolution or winding up), the Exchange Rate shall be adjusted based on the following formula:

$$ER' = ER_0 \times \frac{SP_0}{SP_0 - C}$$

where,

ER₀ = the Exchange Rate in effect immediately prior to the open of business on the Ex-Dividend Date for such dividend or distribution;

ER' = the Exchange Rate in effect immediately after the open of business on the Ex-Dividend Date for such dividend or distribution;

SP₀ = the Last Reported Sale Price per share of Common Stock on the Trading Day immediately preceding the Ex-Dividend Date for such dividend or distribution; and

C = the amount in cash per share the Parent distributes to all or substantially all holders of the Common Stock.

Any increase pursuant to this Section 14.04(d) shall become effective immediately after the open of business on the Ex-Dividend Date for such dividend or distribution. If such dividend or distribution is not so paid, the Exchange Rate shall be decreased, effective as of the date the Board of Directors determines not to make or pay such dividend or distribution, to be the Exchange Rate that would then be in effect if such dividend or distribution had not been declared. Notwithstanding the foregoing, if "C" (as defined above) is equal to or greater than "SP₀" (as defined above), in lieu of the foregoing increase, each Holder of a Note shall receive, for each \$1,000 principal amount of Notes, at the same time and upon the same terms as holders of shares of the Common Stock, the amount of cash that such Holder would have received if such Holder owned a number of shares of Common Stock equal to the Exchange Rate on the Ex-Dividend Date for such cash dividend or distribution.

(e) If the Parent or any of its Subsidiaries make a payment in respect of a tender or exchange offer for the Common Stock, to the extent that the cash and value of any other consideration included in the payment per share of the Common Stock exceeds the average of the Last Reported Sale Price per share of the Common Stock over the 10 consecutive Trading Day period commencing on, and including, the Trading Day next succeeding the last date on which tenders or exchanges may be made pursuant to such tender or exchange offer, the Exchange Rate shall be increased based on the following formula:

$$ER' = ER_0 \times \frac{AC + (SP' \times OS')}{OS_0 \times SP'}$$

where,

- ER0 = the Exchange Rate in effect immediately prior to the close of business on the 10th Trading Day immediately following, and including, the Trading Day next succeeding the date such tender or exchange offer expires;
- ER' = the Exchange Rate in effect immediately after the close of business on the 10th Trading Day immediately following, and including, the Trading Day next succeeding the date such tender or exchange offer expires;
- AC = the aggregate value of all cash and any other consideration (as determined by the Board of Directors) paid or payable for shares of Common Stock purchased in such tender or exchange offer;
- OS0 = the number of shares of Common Stock outstanding immediately prior to the date such tender or exchange offer expires (prior to giving effect to the purchase of all shares of Common Stock accepted for purchase or exchange in such tender or exchange offer);
- OS' = the number of shares of Common Stock outstanding immediately after the date such tender or exchange offer expires (after giving effect to the purchase of all shares of Common Stock accepted for purchase or exchange in such tender or exchange offer); and
- SP' = the average of the Last Reported Sale Price per share of the Common Stock over the 10 consecutive Trading Day period commencing on, and including, the Trading Day next succeeding the date such tender or exchange offer expires.

The increase to the Exchange Rate under this Section 14.04(e) shall occur at the close of business on the 10th Trading Day immediately following, and including, the Trading Day next succeeding the date such tender or exchange offer expires; *provided* that if the relevant Exchange Date for the exchange of any Note occurs during the 10 Trading Days immediately following, and including, the Trading Day next succeeding the expiration date of any tender or exchange offer, references to "10" or "10th" in the preceding paragraph shall be deemed replaced with such lesser number of Trading Days as have elapsed from, and including, the Trading Day next succeeding the expiration date of such tender or exchange offer to, and including, the Exchange Date in determining the Exchange Rate applicable to such exchange.

(f) Notwithstanding this Section 14.04 or any other provision of this Indenture or the Notes, if an Exchange Rate adjustment for a dividend, distribution or other event becomes effective on the related Ex-Dividend Date, and a Holder that has exchanged its Notes with an Exchange Date that occurs on or after such Ex-Dividend Date and on or prior to the Record Date for such dividend, distribution or other event would be treated as the record holder of the shares of Common Stock issuable upon such exchange as of such Record Date, as provided in Section 14.02(i) based on an adjusted Exchange Rate for such Ex-Dividend Date, then, notwithstanding the Exchange Rate adjustment provisions in this Section 14.04, the Exchange Rate adjustment relating to such Ex-Dividend Date shall not be made for such exchange. Instead, such Holder shall be treated as if such Holder were the record owner of the shares of Common Stock due upon such exchange on an unadjusted basis and shall participate in the related dividend, distribution or other event giving rise to such adjustment;

(g) Notwithstanding this Section 14.04 or any other provision of this Indenture or the Notes, if:

(i) a Note is to be exchanged;

(ii) the Record Date, Effective Date or expiration time for any event that requires an adjustment to the Exchange Rate pursuant to this Section 14.04 has occurred on or before the Exchange Date for such exchange, but an adjustment to the Exchange Rate for such event has not yet become effective as of such Exchange Date;

(iii) the consideration due upon such exchange includes any whole shares of Common Stock; and

(iv) such shares are not entitled to participate in such event (because they were not held on the related Record Date or otherwise),

then, solely for purposes of such exchange, the Company shall, without duplication, give effect to such adjustment on such Exchange Date. In such case, if the date on which the Company is otherwise required to deliver the consideration due upon such exchange is before the first date on which the amount of such adjustment can be determined, then the Company shall deliver the consideration due upon such exchange as soon as reasonably practicable (but in no event later than three (or, if the T+2 Effective Date has occurred by such time, two) Business Days after the first date on which the amount of such adjustment can be determined). For the avoidance of doubt, in no event shall the Company give effect to such an adjustment to the Exchange Rate for such exchange to the extent the shares issuable upon such exchange will participate in the related dividend, distribution or other event giving rise to such adjustment.

(h) Except as stated herein, the Company shall not adjust the Exchange Rate for the issuance of shares of the Common Stock or any securities convertible into or exchangeable for shares of the Common Stock or the right to purchase shares of the Common Stock or such convertible or exchangeable securities.

(i) In addition to those adjustments required by clauses (a), (b), (c), (d) and (e) of this Section 14.04, and to the extent permitted by applicable law and subject to the applicable rules of any exchange on which any of the Parent's securities are then listed, the Company from time to time may (but is not required to) increase the Exchange Rate by any amount for a period of at least 20 Business Days if the Board of Directors determines that such increase would be in the Company's best interest. In addition, to the extent permitted by applicable law and subject to the applicable rules of any exchange on which any of the Parent's securities are then listed, the Company may (but is not required to) increase the Exchange Rate to avoid or diminish any income tax to holders of Common Stock or rights to purchase Common Stock in connection with a dividend or distribution of shares of Common Stock (or rights to acquire shares of Common Stock) or similar event. Whenever the Exchange Rate is increased pursuant to either of the preceding two sentences, the Company shall provide to the Holder of each Note a notice of the increase at least 15 days prior to the date the increased Exchange Rate takes effect, and such notice shall state the increased Exchange Rate and the period during which it will be in effect.

(j) Notwithstanding anything to the contrary in this Article 14, the Exchange Rate shall not be adjusted:

(1) upon the issuance of any shares of Common Stock pursuant to any present or future plan providing for the reinvestment of dividends or interest payable on the Parent's securities and the investment of additional optional amounts in shares of Common Stock under any plan;

(2) upon the issuance of any shares of Common Stock or options or rights to purchase those shares pursuant to any present or future employee, director or consultant benefit plan or program of or assumed by the Parent or any of the Parent's Subsidiaries;

(3) upon the issuance of any shares of the Common Stock pursuant to any option, warrant, right or exercisable, exchangeable or convertible security not described in clause (2) of this subsection and outstanding as of the date the Notes were first issued;

(4) solely for a change in the par value of the Common Stock;

(5) for accumulated and unpaid dividends or distributions; or

(6) for accrued and unpaid interest, if any.

(k) All calculations and other determinations under this Article 14 shall be made by the Company and shall be made to the nearest one-ten thousandth (1/10,000th) of a share. The Company shall not adjust the Exchange Rate under this Article 14 unless such adjustment would require a change of at least 1% in the Exchange Rate then in effect at such time. Any adjustments that are less than 1% of the Exchange Rate shall be carried forward and made, regardless of whether the aggregate adjustment is less than 1%, (i) in connection with any subsequent adjustment to the Exchange Rate that, when combined with any carried for adjustments that have not been made, is at least 1%, (ii) annually, on the anniversary of the date the Notes were first issued, (iv) on the Effective Date for any Fundamental Change or Make-Whole Fundamental Change and (v) on any Exchange Date.

(l) Whenever the Exchange Rate is adjusted as herein provided, the Company shall promptly file with the Trustee (and the Exchange Agent if not the Trustee) an Officer's Certificate setting forth the Exchange Rate after such adjustment and setting forth a brief statement of the facts requiring such adjustment. Unless and until a Responsible Officer of the Trustee shall have received such Officer's Certificate, the Trustee shall not be deemed to have knowledge of any adjustment of the Exchange Rate and may assume without inquiry that the last Exchange Rate of which it has knowledge is still in effect.

(m) For purposes of this Section 14.04, the number of shares of Common Stock at any time outstanding shall not include shares of Common Stock held in the treasury of the Parent or the Company so long as the Parent or the Company, as the case may be, does not pay any dividend or make any distribution on shares of Common Stock held in the treasury of the Parent or the Company, as the case may be, but shall include shares of Common Stock issuable in respect of scrip certificates issued in lieu of fractions of shares of Common Stock.

Section 14.05. *Adjustments of Prices.* Whenever any provision of this Indenture requires the Company to calculate the Last Reported Sale Prices over a span of multiple days (including the period for determining the Stock Price for purposes of a Make-Whole Fundamental Change), the Board of Directors shall make appropriate adjustments to each to account for any adjustment to the Exchange Rate that becomes effective, or any event requiring an adjustment to the Exchange Rate where the Ex-Dividend Date, Effective Date or expiration date, as the case may be, of the event occurs, at any time during the period when the Last Reported Sale Prices are to be calculated.

Section 14.06. *Shares to Be Fully Paid.* The Parent shall provide, free from preemptive rights, out of its authorized but unissued shares or shares held in treasury, sufficient shares of Common Stock to provide for exchange of the Notes from time to time as such Notes are presented for exchange (assuming that at the time of computation of such number of shares all such Notes would be exchanged by a single Holder).

Section 14.07. *Effect of Recapitalizations, Reclassifications and Changes of the Common Stock.*

(a) In the case of:

(1) any recapitalization, reclassification or change of the Common Stock (other than changes resulting from a subdivision or combination or a change only in par value or from par value to no par value or no par value to par value),

(2) any consolidation, merger, combination or similar transaction involving the Parent,

(3) any sale, lease or other transfer to a third party of the consolidated assets of the Parent and the Parent's Subsidiaries substantially as an entirety or

(4) any statutory share exchange,

in each case, as a result of which the Common Stock would be converted into, or exchanged for, stock, other securities, other property or assets (including cash or any combination thereof) (any such event, a "**Merger Event**," and any such property, the "**Reference Property**"), then, at and after the effective time of such Merger Event, the right to exchange each \$1,000 principal amount of Notes shall be changed into a right to exchange such principal amount of Notes into the kind and amount of shares of stock, other securities or other property or assets (including cash or any combination thereof) that would have been payable in such transaction to a person that held a number of shares of Common Stock equal to the Exchange Rate in effect as of the Exchange Date for the applicable exchange. Prior to or at the effective time of such Merger Event, the Company or the successor or purchasing Person, as the case may be, and the Parent shall execute with the Trustee a supplemental indenture permitted under Section 10.01(g) providing for such change in the right to exchange each \$1,000 principal amount of Notes; *provided, however*, that at and after the effective time of the Merger Event (I) the Exchange Rate

shall continue to be subject to adjustment in accordance with Section 14.04 and, (II) the Last Reported Sale Price of the Common Stock shall be calculated based on the value of the kind and amount of Reference Property that a holder of one share of the Common Stock would have received in such Merger Event (without giving effect to any arrangement not to issue fractional shares of securities or other property).

If the Merger Event causes the Common Stock to be converted into, or exchanged for, the right to receive more than a single type of consideration (determined based in part upon any form of stockholder election), then the Reference Property into which the Notes will be exchangeable shall be deemed to be (x) the weighted average of the types and amounts of consideration received by the holders of Common Stock that affirmatively make such an election or (y) if no holders of Common Stock affirmatively make such an election, the types and amounts of consideration actually received by the holders of Common Stock. If the holders of the Common Stock receive only cash in such Merger Event, then for all exchanges for which the relevant Exchange Date occurs after the effective date of such Merger Event the consideration due upon exchange of each \$1,000 principal amount of Notes shall be solely cash in an amount equal to the Exchange Rate in effect on the Exchange Date (as may be increased by any Additional Shares pursuant to Section 14.03), *multiplied* by the price paid per share of Common Stock in such Merger Event. The Company shall notify Holders, the Trustee and the Exchange Agent (if other than the Trustee) of such weighted average as soon as practicable after such determination is made.

If, in the case of any Merger Event, the Reference Property includes shares of stock or other securities of a Person other than the Parent or successor or purchasing corporation, as the case may be, in such Merger Event, then a supplemental indenture shall also be executed by such other Person, obligating itself to deliver such stock or securities upon exchange of the Notes, and shall contain such additional provisions to protect the interests of the Holders of the Notes as the Company reasonably considers necessary.

(b) When a supplemental indenture is executed pursuant to subsection (a) of this Section 14.07, the Company shall promptly file with the Trustee an Officer's Certificate briefly stating the reasons therefor, the kind or amount of cash, securities or property or asset that will comprise the Reference Property attributable to one share of Common Stock after any such Merger Event, any adjustment to be made with respect thereto and that all conditions precedent have been complied with, and shall promptly provide notice thereof to all Holders. The Company shall cause notice of the execution of such supplemental indenture to be provided to each Holder within 20 days after execution thereof. Failure to deliver such notice shall not affect the legality or validity of such supplemental indenture. The Trustee shall have no duty to determine whether a supplemental indenture is required pursuant to subsection (a) of this Section 14.07 or whether any provision of any such supplemental indenture is correct.

(c) Neither the Company nor the Parent shall become a party to any Merger Event unless its terms are consistent with this Section 14.07. None of the foregoing provisions shall affect the right of a holder of Notes to exchange its Notes into Common Stock as set forth in Section 14.01 and Section 14.02 prior to the effective date of such Merger Event.

(d) The above provisions of this Section shall similarly apply to successive Merger Events.

Section 14.08. *Covenant Regarding the Shares.* The Parent covenants that all shares of Common Stock issued upon exchange of Notes will be duly authorized, validly issued, fully paid and non-assessable by the Parent and free from all taxes, liens and charges with respect to the issue thereof.

Section 14.09. *Responsibility of Trustee.* The Trustee and any other Exchange Agent shall not at any time be under any duty or responsibility to any Holder or any other Person to determine the Exchange Rate (or any adjustment thereto) or whether any facts exist that may require any adjustment (including any increase) of the Exchange Rate, or with respect to the nature or extent or calculation of any such adjustment when made, or with respect to the method employed, or herein or in any supplemental indenture provided to be employed, in making the same. The Trustee and any other Exchange Agent shall not be accountable with respect to the validity or value (or the kind or amount) of any shares of Common Stock, or of any securities, property or cash that may at any time be issued or delivered upon the exchange of any Note; and the Trustee and any other Exchange Agent make no representations with respect thereto. Neither the Trustee nor any Exchange Agent shall be responsible for any failure of the Company or the Parent to issue, transfer or deliver any shares of Common Stock or stock certificates or other securities or property or cash upon the surrender of any Note for the purpose of exchange or to comply with any of the duties, responsibilities or covenants of the Company or the Parent contained in this Article. Without limiting the generality of the foregoing, neither the Trustee nor any Exchange Agent shall be under any responsibility to determine the correctness of any provisions or calculations contained in any supplemental indenture entered into pursuant to Section 14.07 relating either to the kind or amount of shares of stock or securities or property (including cash) receivable by Holders upon the exchange of their Notes after any event referred to in such Section 14.07 or to any adjustment to be made with respect thereto, but, subject to the provisions of Section 7.01, may accept (without any independent investigation) as conclusive evidence of the correctness of any such provisions, and shall be protected in relying upon, the Officer's Certificate (which the Company shall be obligated to file with the Trustee prior to the execution of any such supplemental indenture) with respect thereto. Notwithstanding the foregoing, in the event that either the Company or the Parent shall act as the Trustee or the Exchange Agent, this Section 14.09 shall not limit the obligations of the Company or the Parent otherwise imposed by this Indenture, other than in its or their capacity as the Trustee and/or the Exchange Agent, as applicable.

Section 14.10. *Stockholder Rights Plans.* If the Parent has a stockholder rights plan in effect upon exchange of the Notes, each share of Common Stock, if any, issued upon such exchange shall be accompanied by the appropriate number of rights, if any, and the certificates representing the Common Stock issued upon such exchange shall bear such legends, if any, in each case as may be provided by the terms of any such stockholder rights plan, as the same may be amended from time to time. However, if, prior to any exchange of Notes, the rights have separated from the shares of Common Stock in accordance with the provisions of the applicable stockholder rights plan, the Exchange Rate shall be adjusted at the time of separation as if the Parent distributed to all or substantially all holders of the Common Stock Distributed Property as provided in Section 14.04(c), subject to readjustment in the event of the expiration, termination or redemption of such rights.

Section 14.11. *Restrictions on Exchanges*. Notwithstanding any other provision of this Indenture or the Notes, for so long as the Common Stock is registered under the Exchange Act, a Holder shall not be entitled to receive shares of Common Stock upon exchange of any Notes during any period of time in which the aggregate number of shares of Common Stock that may be acquired by such Holder upon exchange of Notes shall, when added to the aggregate number of shares of Common Stock deemed beneficially owned, directly or indirectly, by such holder and each person subject to aggregation of common stock with such holder under Section 13 or Section 16 of the Exchange Act and rules promulgated thereunder at such time (each, an “**Aggregated Person**”) (other than by virtue of the ownership of securities or rights to acquire securities that have limitations on the holder’s or such Aggregated Person’s right to convert, exercise or purchase similar to this limitation), as determined pursuant to the rules and regulations promulgated under Section 13(d) of the Exchange Act, exceed 9.99% (or, in the case of Notes beneficially owned by funds and accounts managed by Brigade Capital Management, LP, together with their aggregated persons, if any, 12.49%) of the total issued and outstanding shares of Common Stock.

ARTICLE 15
REPURCHASE OF NOTES UPON A FUNDAMENTAL CHANGE

Section 15.01. *Repurchase at Option of Holders Upon a Fundamental Change*. (a) If a Fundamental Change occurs at any time, each Holder shall have the right, at such Holder’s option, to require the Company to repurchase for cash all of such Holder’s Notes, or any portion thereof that is equal to \$1,000 or an integral multiple of \$1,000, on the date (the “**Fundamental Change Repurchase Date**”) specified by the Company that is not less than 20 calendar days or more than 35 calendar days following the date of the Fundamental Change Company Notice at a repurchase price equal to 100% of the principal amount thereof, *plus* accrued and unpaid interest thereon to, but excluding, the Fundamental Change Repurchase Date (the “**Fundamental Change Repurchase Price**”), unless the Fundamental Change Repurchase Date falls after a Regular Record Date but on or prior to the Interest Payment Date to which such Regular Record Date relates, in which case the Company shall instead pay, on or before such Interest Payment Date, the full amount of accrued and unpaid interest that would have accrued to such Interest Payment Date to Holders of record at the close of business as of such Regular Record Date, and the Fundamental Change Repurchase Price shall be equal to 100% of the principal amount of Notes to be repurchased pursuant to this Article 15.

(b) Repurchases of Notes under this Section 15.01 shall be made, at the option of the Holder thereof, upon:

(1) delivery to the Paying Agent by a Holder of a duly completed notice (the “**Fundamental Change Repurchase Notice**”) in the form set forth in Attachment 2 to the Form of Note attached hereto as Exhibit A, if the Notes are Physical Notes, or in compliance with the Depository’s procedures for surrendering interests in Global Notes, if the Notes are Global Notes, in each case on or before the close of business on the second Business Day immediately preceding the Fundamental Change Repurchase Date; and

(2) delivery of the Notes, if the Notes are Physical Notes, to the Paying Agent at any time after delivery of the Fundamental Change Repurchase Notice (together with all necessary endorsements for transfer) at the Corporate Trust Office of the Paying Agent, or book-entry transfer of the Notes, if the Notes are Global Notes, in compliance with the procedures of the Depository, in each case such delivery being a condition to receipt by the Holder of the Fundamental Change Repurchase Price therefor.

The Fundamental Change Repurchase Notice in respect of any Notes to be repurchased shall state:

- (i) in the case of Physical Notes, the certificate numbers of the Notes to be delivered for repurchase;
- (ii) the portion of the principal amount of Notes to be repurchased, which must be \$1,000 or an integral multiple thereof; and
- (3) that the Notes are to be repurchased by the Company pursuant to the applicable provisions of the Notes and this Indenture;

provided, however, that if the Notes are Global Notes, the Fundamental Change Repurchase Notice must instead comply with appropriate Depository procedures.

Notwithstanding anything herein to the contrary, any Holder delivering to the Paying Agent the Fundamental Change Repurchase Notice contemplated by this Section 15.01 shall have the right to withdraw, in whole or in part, such Fundamental Change Repurchase Notice at any time prior to the close of business on the Business Day immediately preceding the Fundamental Change Repurchase Date by delivery of a written notice of withdrawal to the Paying Agent in accordance with Section 15.02.

The Paying Agent shall promptly notify the Company of the receipt by it of any Fundamental Change Repurchase Notice or written notice of withdrawal thereof.

(c) On or before the 20th calendar day after the occurrence of the effective date of a Fundamental Change, the Company shall provide to all Holders of Notes and the Trustee and the Paying Agent (in the case of a Paying Agent other than the Trustee) a notice (the “**Fundamental Change Company Notice**”) of the occurrence of the effective date of the Fundamental Change and of the repurchase right at the option of the Holders arising as a result thereof. In the case of Physical Notes, such notice shall be by first class mail or, in the case of Global Notes, such notice shall be delivered in accordance with the applicable procedures of the Depository. Simultaneously with providing such notice, the Company shall publish a notice containing the information set forth in the Fundamental Change Company Notice in a newspaper of general circulation in The City of New York or publish such information on the Company’s website or through such other public medium as the Company may use at that time. Each Fundamental Change Company Notice shall specify:

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- (1) the events causing the Fundamental Change;
 - (2) the date of the Fundamental Change;
 - (3) the last date on which a Holder may exercise the repurchase right pursuant to this Article 15;
 - (4) the Fundamental Change Repurchase Price;
 - (5) the Fundamental Change Repurchase Date;
 - (6) the name and address of the Paying Agent and the Exchange Agent, if applicable;
 - (7) the then-effective Exchange Rate and, if applicable, any adjustments to the Exchange Rate;
 - (8) that the Notes with respect to which a Fundamental Change Repurchase Notice has been delivered by a Holder may be exchanged only if the Holder withdraws the Fundamental Change Repurchase Notice in accordance with the terms of this Indenture; and
 - (9) the procedures that Holders must follow to require the Company to repurchase their Notes.

No failure of the Company to give the foregoing notices and no defect therein shall limit the Holders' repurchase rights or affect the validity of the proceedings for the repurchase of the Notes pursuant to this Section 15.01.

At the Company's request, the Trustee shall give such notice in the Company's name and at the Company's expense; *provided, however*, that, in all cases, the text of such Fundamental Change Company Notice shall be prepared by the Company.

(d) Notwithstanding the foregoing, no Notes may be repurchased by the Company on any date at the option of the Holders upon a Fundamental Change if the principal amount of the Notes has been accelerated, and such acceleration has not been rescinded, on or prior to such date (except in the case of an acceleration resulting from a Default by the Company in the payment of the Fundamental Change Repurchase Price with respect to such Notes). The Paying Agent will promptly return to the respective Holders thereof any Physical Notes held by it during the acceleration of the Notes (except in the case of an acceleration resulting from a Default by the Company in the payment of the Fundamental Change Repurchase Price with respect to such Notes), or any instructions for book-entry transfer of the Notes in compliance with the procedures of the Depository shall be deemed to have been cancelled, and, upon such return or cancellation, as the case may be, the Fundamental Change Repurchase Notice with respect thereto shall be deemed to have been withdrawn.

Section 15.02. *Withdrawal of Fundamental Change Repurchase Notice.* (a) A Fundamental Change Repurchase Notice may be withdrawn (in whole or in part) by means of a written notice of withdrawal delivered to the Corporate Trust Office of the Paying Agent in accordance with this Section 15.02 at any time prior to the close of business on the Business Day immediately preceding the Fundamental Change Repurchase Date, specifying:

- (1) the principal amount of the Notes with respect to which such notice of withdrawal is being submitted,
- (2) if Physical Notes have been issued, the certificate number of the Note in respect of which such notice of withdrawal is being submitted, and
- (3) the principal amount, if any, of such Note that remains subject to the original Fundamental Change Repurchase Notice, which portion must be in principal amounts of \$1,000 or an integral multiple of \$1,000;

provided, however, that if the Notes are Global Notes, the notice must instead comply with appropriate procedures of the Depositary.

Section 15.03. *Deposit of Fundamental Change Repurchase Price.* (a) The Company will deposit with the Trustee (or other Paying Agent appointed by the Company, or if the Company is acting as its own Paying Agent, set aside, segregate and hold in trust as provided in Section 4.04) on or prior to 12:00 p.m., New York City time, on the Fundamental Change Repurchase Date an amount of money in immediately available funds sufficient to repurchase all of the Notes to be repurchased at the appropriate Fundamental Change Repurchase Price. Subject to receipt of funds and/or Notes by the Trustee (or other Paying Agent appointed by the Company), payment for Notes surrendered for repurchase (and not withdrawn prior to the close of business on the Business Day immediately preceding the Fundamental Change Repurchase Date) will be made on the later of (i) the Fundamental Change Repurchase Date (*provided* the Holder has satisfied the conditions in Section 15.01) and (ii) the time of book-entry transfer or the delivery of such Note to the Trustee (or other Paying Agent appointed by the Company) by the Holder thereof in the manner required by Section 15.01 by mailing checks for the amount payable to the Holders of such Notes entitled thereto as they shall appear in the Note Register; *provided, however,* that payments to the Depositary shall be made by wire transfer of immediately available funds to the account of the Depositary or its nominee. The Trustee shall, promptly after such payment and upon written demand by the Company, return to the Company any funds in excess of the Fundamental Change Repurchase Price.

(b) If by 12:00 p.m. New York City time, on the Fundamental Change Repurchase Date, the Trustee (or other Paying Agent appointed by the Company) holds money sufficient to make payment on all the Notes or portions thereof that are to be repurchased on such Fundamental Change Repurchase Date, then, with respect to the Notes that have been properly surrendered for repurchase and have not been validly withdrawn, (i) such Notes will cease to be outstanding, (ii) interest will cease to accrue on such Notes (whether or not book-entry transfer of the Notes has been made or the Notes have been delivered to the Trustee or Paying Agent), except to the extent provided in Section 15.01(a), and (iii) all other rights of the Holders of such Notes will terminate (other than the right to receive the Fundamental Change Repurchase Price).

(c) Upon surrender of a Note that is to be repurchased in part pursuant to Section 15.01, the Company shall execute and the Trustee shall authenticate and deliver to the Holder a new Note in an authorized denomination equal in principal amount to the unreurchased portion of the Note surrendered.

Section 15.04. *Covenant to Comply with Applicable Laws Upon Repurchase of Notes.* In connection with any repurchase offer, each of the Company and the Parent will, if required:

- (a) comply with the provisions of Rule 13e-4, Rule 14e-1 and any other tender offer rules under the Exchange Act;
- (b) file a Schedule TO or any other required schedule under the Exchange Act; and
- (c) otherwise comply with all federal and state securities laws in connection with any offer by the Company to repurchase the Notes;

in each case, so as to permit the rights and obligations under this Article 15 to be exercised in the time and in the manner specified in this Article 15.

ARTICLE 16
NO REDEMPTION

Section 16.01. *No Redemption.* The Notes shall not be redeemable by the Company prior to the Maturity Date, and no sinking fund is provided for the Notes.

ARTICLE 17
COVENANT DEFEASANCE

Section 17.01. *Covenant Defeasance.* The Company may, at its option and at any time, subject to the satisfaction of the conditions set forth in Section 17.02, elect to have its obligations released with respect to the covenants contained in Sections 4.10, 4.11, 4.12, 4.13, 4.14, 4.15 and 4.16 and thereafter any omission to comply with those covenants will not constitute a Default or Event of Default with respect to the Notes (hereinafter, "**Covenant Defeasance**"). For the avoidance of doubt, upon a Covenant Defeasance and thereafter, the Parent, the Company and each Guarantor may omit to comply with and will have no liability in respect of any term, condition or limitation set forth in any covenant specified in this Section 17.01, whether directly or indirectly, by reason of any reference elsewhere in this Indenture to any such covenant or by reason of any reference in any such covenant to any other provision in this Indenture or in any other document or otherwise and such omission to comply will not constitute a Default or an Event of Default under this Indenture, but, except as specified in this Indenture, the remainder of this Indenture and such Notes and Note Guarantees will be unaffected by such Covenant Defeasance.

Section 17.02. *Conditions to Covenant Defeasance.* In order to exercise Covenant Defeasance:

- (1) The Company must irrevocably deposit with the Trustee, in trust, for the benefit of the Holders of the Notes, cash in U.S. dollars, non-callable Government Securities, or a combination thereof, in amounts as will be sufficient to pay the principal of, premium, if any, on, and interest, if any, on, the outstanding Notes on the stated date for payment thereof;

(2) The Company must deliver to the Trustee an Opinion of Counsel stating that the Holders of the outstanding Notes will not recognize income, gain, deduction or loss for federal income tax purposes as a result of such Covenant Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;

(3) no Default or Event of Default shall have occurred and is continuing on the date of such deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to such deposit (and any similar concurrent deposit relating to other Indebtedness), and the granting of Liens to secure such borrowings);

(4) such Covenant Defeasance will not result in a breach or violation of, or constitute a default under, any material agreement or instrument (other than this Indenture and the agreements governing any other Indebtedness being defeased, discharged or replaced) to which the Company is a party or by which the Company is bound;

(5) the Company must deliver to the Trustee an Officer's Certificate stating that the deposit was not made by the Company with the intent of defeating, hindering, delaying or defrauding any creditors of the Company or others; and

(6) the Company must deliver to the Trustee an Officer's Certificate and an Opinion of Counsel, each stating that all conditions precedent relating to the Covenant Defeasance have been complied with.

Notwithstanding the foregoing, as any Notes are paid in full or exchanged for Common Stock (or other Reference Property, as applicable) and cease to be outstanding, the Trustee will return to the Company any monies or other instruments that may remain on deposit and are not necessary to fully pay the principal of and interest, if any, on, the other Notes, if any, then outstanding on the stated date for payment thereof.

Section 17.03. *Deposited Money and Government Securities to be Held in Trust; Other Miscellaneous Provisions.* Subject to Section 17.04, all money and non-callable Government Securities (including the proceeds thereof) deposited with the Trustee (or other qualifying trustee, collectively for purposes of this Section 17.03, the "**Trustee**") pursuant to Section 17.04 in respect of the outstanding Notes will be held in trust and applied by the Trustee, in accordance with the provisions of such Notes and this Indenture, to the payment, either directly or through any Paying Agent (including the Company acting as Paying Agent) as the Trustee may determine, to the Holders of such Notes of all sums due and to become due thereon in respect of principal, premium, if any, and interest, if any, but such money need not be segregated from other funds except to the extent required by law.

The Company will pay and indemnify the Trustee against any tax, fee or other charge imposed on or assessed against the cash or non-callable Government Securities deposited pursuant to Section 17.02 or the principal and interest received in respect thereof other than any such tax, fee or other charge which by law is for the account of the Holders of the outstanding Notes.

Notwithstanding anything in this Article 17 to the contrary, the Trustee will deliver or pay to the Company from time to time upon the request of the Company any money or non-callable Government Securities held by it as provided in Section 17.04 which are in excess of the amount thereof that would then be required to be deposited to effect an equivalent Covenant Defeasance.

Section 17.04. *Reinstatement.* If the Trustee or Paying Agent is unable to apply any U.S. dollars or non-callable Government Securities in accordance with Section 17.01, as the case may be, by reason of any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application, then the Company's obligations under this Indenture and the Notes and the Note Guarantees with respect to the provisions subject to Covenant Defeasance will be revived and reinstated as though no deposit had occurred pursuant to Section 17.01 until such time as the Trustee or Paying Agent is permitted to apply all such money in accordance with Section 17.01, as the case may be; *provided, however*, that, if the Company makes any payment of principal of, premium on, if any, or interest, if any, on, any Note following the reinstatement of its obligations, the Company will be subrogated to the rights of the Holders of such Notes to receive such payment from the money held by the Trustee or Paying Agent.

ARTICLE 18 MISCELLANEOUS PROVISIONS

Section 18.01. *Provisions Binding on Company's and Guarantors' Successors.* All the covenants, stipulations, promises and agreements of the Company and each Guarantor contained in this Indenture shall bind their respective successors and assigns whether so expressed or not.

Section 18.02. *Official Acts by Successor Corporation.* Any act or proceeding by any provision of this Indenture authorized or required to be done or performed by any board, committee or Officer of the Company or a Guarantor shall and may be done and performed with like force and effect by the like board, committee or officer of any corporation or other entity that shall at the time be the lawful sole successor of the Company or such Guarantor.

Section 18.03. *Addresses for Notices, Etc.* Any notice or demand that by any provision of this Indenture is required or permitted to be given or served by the Trustee or by the Holders on the Company shall be in writing and shall be deemed to have been sufficiently given or made, for all purposes if given or served by being deposited postage prepaid by registered or certified mail in a post office letter box addressed (until another address is filed by the Company with the Trustee) to MagnaChip Semiconductor S.A., 1, allée Scheffèr, L-2520 Luxembourg, Grand Duchy of Luxembourg, Attention: Board of Directors, with a copy to MagnaChip Semiconductor Corporation, 20400 Stevens Creek Boulevard, Suite 370, Cupertino, CA 95014, Attention: General Counsel, or by overnight courier or sent electronically by PDF transmission. Any

notice, direction, request or demand hereunder to or upon the Trustee shall be deemed to have been sufficiently given or made, for all purposes, if given or served by being deposited postage prepaid by registered or certified mail in a post office letter box addressed to the Corporate Trust Office at 60 Livingston Avenue, St. Paul, MN 55107, Attention: U.S. Bank Global Corporate Trust Services – MagnaChip Semiconductor S.A.

The Trustee, by notice to the Company, may designate additional or different addresses for subsequent notices or communications.

Any notice or communication delivered or provided or to be delivered or provided to a Holder of Physical Notes shall be mailed to it by first class mail, postage prepaid, at its address as it appears on the Note Register and shall be sufficiently given to it if so mailed within the time prescribed. Any notice or communication delivered or provided or to be delivered or provided to a Holder of Global Notes shall be delivered in accordance with the applicable procedures of the Depository and shall be sufficiently given to it if so delivered within the time prescribed.

Failure to mail or deliver a notice or communication to a Holder or any defect in it shall not affect its sufficiency with respect to other Holders. If a notice or communication is mailed or delivered, as the case may be, in the manner provided above, it is duly given, whether or not the addressee receives it.

In case by reason of the suspension of regular mail service or by reason of any other cause it shall be impracticable to give such notice to Holders by mail, then such notification as shall be made with the approval of the Trustee shall constitute a sufficient notification for every purpose hereunder.

Section 18.04. *Governing Law; Jurisdiction.* THIS INDENTURE, THE NOTE GUARANTEES AND EACH NOTE, AND ANY CLAIM, CONTROVERSY OR DISPUTE ARISING UNDER OR RELATED TO THIS INDENTURE, THE NOTE GUARANTEES AND EACH NOTE, SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, AND FOR THE AVOIDANCE OF DOUBT, THE APPLICABILITY OF ARTICLES 84 THROUGH 94-8 OF THE LUXEMBOURG LAW OF 10 AUGUST 1915 ON COMMERCIAL COMPANIES, AS AMENDED, SHALL BE EXCLUDED.

The Company and the Parent irrevocably consents and agrees, for the benefit of the Holders from time to time of the Notes and the Trustee, that any legal action, suit or proceeding against it with respect to obligations, liabilities or any other matter arising out of or in connection with this Indenture, the Note Guarantees or the Notes may be brought in the courts of the State of New York or the courts of the United States located in the Borough of Manhattan, New York City, New York and, until amounts due and to become due in respect of the Notes have been paid, hereby irrevocably consents and submits to the non-exclusive jurisdiction of each such court *in personam*, generally and unconditionally with respect to any action, suit or proceeding for itself in respect of its properties, assets and revenues. The Company and the Parent irrevocably and unconditionally waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of venue of any of the aforesaid actions, suits or proceedings arising out of or in connection with this Indenture brought in the courts of the State

of New York or the courts of the United States located in the Borough of Manhattan, New York City, New York and hereby further irrevocably and unconditionally waives and agrees not to plead or claim in any such court that any such action, suit or proceeding brought in any such court has been brought in an inconvenient forum.

The Company hereby appoints CT Corporation System as its authorized agent (the “*Authorized Agent*”) upon whom process may be served in any suit, action or proceeding arising out of or based upon this Indenture or the transactions contemplated herein that may be instituted in the courts of the State of New York or the courts of the United States located in the Borough of Manhattan, New York City, New York. Such appointment shall be irrevocable unless and until the Authorized Agent is replaced by an agent reasonably acceptable to the Trustee. The Company hereby represents and warrants that the Authorized Agent has accepted such appointment and has agreed to act as said agent for service of process, and Company agrees to take any and all action, including the filing of any and all documents, that may be necessary to continue such appointment in full force and effect as aforesaid. Service of process upon the Authorized Agent shall be deemed, in every respect, effective service of process upon the Company. Nothing herein shall affect the right to effect service of process in any other manner permitted by law or shall limit the right to sue in any other jurisdiction.

To the extent that the Company has or hereafter may acquire any immunity (sovereign or otherwise) from any legal action, suit or proceeding, from jurisdiction of any court or from set-off or any legal process (whether service or notice, attachment in aid or otherwise) with respect to itself or any of its property, the Company hereby irrevocably waives and agrees not to plead or claim such immunity in respect of its obligations under this Indenture.

Section 18.05. *Evidence of Compliance with Conditions Precedent; Certificates and Opinions of Counsel to Trustee.* Upon any application or demand by the Company to the Trustee to take any action under any of the provisions of this Indenture, the Company shall furnish to the Trustee an Officer’s Certificate stating that such action is permitted by the terms of this Indenture.

Each Officer’s Certificate and Opinion of Counsel provided for, by or on behalf of the Company in this Indenture and delivered to the Trustee with respect to compliance with this Indenture (other than the Officer’s Certificates provided for in Section 4.08) shall include (a) a statement that the person signing such certificate is familiar with the requested action and this Indenture; (b) a brief statement as to the nature and scope of the examination or investigation upon which the statement contained in such certificate is based; (c) a statement that, in the judgment of such person, he or she has made such examination or investigation as is necessary to enable him or her to express an informed judgment as to whether or not such action is permitted by this Indenture; and (d) a statement as to whether or not, in the judgment of such person, such action is permitted by this Indenture.

Notwithstanding anything to the contrary in this Section 18.05, if any provision in this Indenture specifically provides that the Trustee shall or may receive an Opinion of Counsel in connection with any action to be taken by the Trustee or the Company hereunder, the Trustee shall be entitled to, or entitled to request, such Opinion of Counsel.

Section 18.06. *Legal Holidays.* In any case where any Interest Payment Date, any Fundamental Change Repurchase Date or the Maturity Date is not a Business Day, then any action to be taken on such date need not be taken on such date, but may be taken on the next succeeding Business Day with the same force and effect as if taken on such date, and no interest shall accrue in respect of the delay.

Section 18.07. *No Security Interest Created.* Nothing in this Indenture or in the Notes, expressed or implied, shall be construed to constitute a security interest under the Uniform Commercial Code or similar legislation, as now or hereafter enacted and in effect, in any jurisdiction.

Section 18.08. *Benefits of Indenture.* Nothing in this Indenture or in the Notes, expressed or implied, shall give to any Person, other than the Holders, the parties hereto, any Paying Agent, any Exchange Agent, any authenticating agent, any Note Registrar and their successors hereunder, any benefit or any legal or equitable right, remedy or claim under this Indenture.

Section 18.09. *Table of Contents, Headings, Etc.* The table of contents and the titles and headings of the articles and sections of this Indenture have been inserted for convenience of reference only, are not to be considered a part hereof, and shall in no way modify or restrict any of the terms or provisions hereof.

Section 18.10. *Authenticating Agent.* The Trustee may appoint an authenticating agent that shall be authorized to act on its behalf and subject to its direction in the authentication and delivery of Notes in connection with the original issuance thereof and transfers and exchanges of Notes hereunder, including under Section 2.04, Section 2.05, Section 2.06, Section 2.07, Section 10.04 and Section 15.03 as fully to all intents and purposes as though the authenticating agent had been expressly authorized by this Indenture and those Sections to authenticate and deliver Notes. For all purposes of this Indenture, the authentication and delivery of Notes by the authenticating agent shall be deemed to be authentication and delivery of such Notes “by the Trustee” and a certificate of authentication executed on behalf of the Trustee by an authenticating agent shall be deemed to satisfy any requirement hereunder or in the Notes for the Trustee’s certificate of authentication. Such authenticating agent shall at all times be a Person eligible to serve as trustee hereunder pursuant to Section 7.08.

Any corporation or other entity into which any authenticating agent may be merged or converted or with which it may be consolidated, or any corporation or other entity resulting from any merger, consolidation or conversion to which any authenticating agent shall be a party, or any corporation or other entity succeeding to all or substantially all the corporate trust business of any authenticating agent, shall be the successor of the authenticating agent hereunder, if such successor corporation or other entity is otherwise eligible under this Section 18.10, without the execution or filing of any paper or any further act on the part of the parties hereto or the authenticating agent or such successor corporation or other entity.

Any authenticating agent may at any time resign by giving written notice of resignation to the Trustee and to the Company. The Trustee may at any time terminate the agency of any authenticating agent by giving written notice of termination to such authenticating agent and to the Company. Upon receiving such a notice of resignation or upon such a termination, or in case

at any time any authenticating agent shall cease to be eligible under this Section, the Trustee may appoint a successor authenticating agent (which may be the Trustee), shall give written notice of such appointment to the Company and shall mail notice of such appointment to all Holders as the names and addresses of such Holders appear on the Note Register.

The Company agrees to pay to the authenticating agent from time to time reasonable compensation for its services although the Company may terminate the authenticating agent, if it determines such agent's fees to be unreasonable.

The provisions of Section 7.02, Section 7.03, Section 7.04, Section 8.03 and this Section 18.10 shall be applicable to any authenticating agent.

If an authenticating agent is appointed pursuant to this Section 18.10, the Notes may have endorsed thereon, in addition to the Trustee's certificate of authentication, an alternative certificate of authentication in the following form:

_____,
as Authenticating Agent, certifies that this is one of the Notes described in the within-named Indenture.

By: _____
Authorized Officer

Section 18.11. *Execution in Counterparts*. This Indenture may be executed in any number of counterparts, each of which shall be an original, but such counterparts shall together constitute but one and the same instrument. The exchange of copies of this Indenture and of signature pages by facsimile or PDF transmission shall constitute effective execution and delivery of this Indenture as to the parties hereto and may be used in lieu of the original Indenture for all purposes. Signatures of the parties hereto transmitted by facsimile or PDF shall be deemed to be their original signatures for all purposes.

Section 18.12. *Severability*. In the event any provision of this Indenture or in the Notes shall be invalid, illegal or unenforceable, then (to the extent permitted by law) the validity, legality or enforceability of the remaining provisions shall not in any way be affected or impaired.

Section 18.13. *Waiver of Jury Trial*. EACH OF THE COMPANY, THE PARENT AND THE TRUSTEE HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS INDENTURE, THE NOTE GUARANTEE, THE NOTES OR THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 18.14. *Force Majeure*. In no event shall the Trustee be responsible or liable for any failure or delay in the performance of its obligations hereunder arising out of or caused by, directly or indirectly, forces beyond its control, including, without limitation, strikes, work stoppages, accidents, acts of war or terrorism, civil or military disturbances, nuclear or natural catastrophes or acts of God, and interruptions, loss or malfunctions of utilities, communications or computer (software and hardware) services; it being understood that the Trustee shall use reasonable efforts that are consistent with accepted practices in the banking industry to resume performance as soon as practicable under the circumstances.

Section 18.15. *Calculations.* Except as otherwise provided herein, the Company shall be responsible for making all calculations called for under the Notes. These calculations include, but are not limited to, determinations of the Last Reported Sale Prices, accrued interest payable on the Notes and the Exchange Rate of the Notes. The Company shall make all these calculations in good faith and, absent manifest error, the Company's calculations shall be final and binding on Holders of Notes. The Company shall provide a schedule of its calculations to each of the Trustee and the Exchange Agent, and each of the Trustee and Exchange Agent is entitled to rely conclusively upon the accuracy of the Company's calculations without independent verification. The Trustee will forward the Company's calculations to any Holder of Notes upon the written request of that Holder.

Section 18.16. *USA PATRIOT Act.* The parties hereto acknowledge that in accordance with Section 326 of the USA PATRIOT Act, the Trustee, like all financial institutions and in order to help fight the funding of terrorism and money laundering, is required to obtain, verify, and record information that identifies each person or legal entity that establishes a relationship or opens an account with the Trustee. The parties to this Indenture agree that they will provide the Trustee with such information as it may request in order for the Trustee to satisfy the requirements of the USA PATRIOT Act.

Section 18.17. *Judgment Currency.* Any payment on account of an amount that is payable in U.S. dollars (the "Required Currency") which is made to or for the account of any Holder or the Trustee in lawful currency of any other jurisdiction (the "*Judgment Currency*"), whether as a result of any judgment or order or the enforcement thereof or the liquidation of the Company or the Parent, shall constitute a discharge of the Company or the Parent's obligation under this Indenture and the Notes or Note Guarantee, as the case may be, only to the extent of the amount of the Required Currency which the Holder or the Trustee, as the case may be, could purchase in the London foreign exchange markets with the amount of the Judgment Currency in accordance with normal banking procedures at the rate of exchange prevailing on the first Business Day following receipt of the payment in the Judgment Currency. If the amount of the Required Currency that could be so purchased is less than the amount of the Required Currency originally due to such Holder or the Trustee, as the case may be, the Company and the Parent shall indemnify and hold harmless the Holder or the Trustee, as the case may be, from and against all loss or damage arising out of, or as a result of, such deficiency. This indemnity shall constitute an obligation separate and independent from the other obligations contained in this Indenture or the Notes, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Holder or the Trustee from time to time and shall continue in full force and effect notwithstanding any judgment or order for a liquidated sum in respect of an amount due hereunder or under any judgment or order.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed as of the date first written above.

MAGNACHIP SEMICONDUCTOR S.A.

By: /s/ Theodore Kim

Name: Theodore Kim

Title: Director

MAGNACHIP SEMICONDUCTOR CORPORATION, as
Guarantor

By: /s/ Theodore Kim

Name: Theodore Kim

Title: Chief Compliance Officer, Executive Vice
President, General Counsel and Secretary

U.S. BANK NATIONAL
ASSOCIATION, as Trustee

By: /s/ Richard Prokosch

Name: Richard Prokosch

Title: Vice President

[FORM OF FACE OF NOTE]

[INCLUDE FOLLOWING LEGEND IF A GLOBAL NOTE]

[Unless this certificate is presented by an authorized representative of the Depository Trust Company, a New York corporation (“DTC”), to the Company or its agent for registration of transfer, exchange, or payment, and any certificate issued is registered in the name of Cede & Co. Or in such other name as is requested by an authorized representative of DTC (and any payment hereunder is made to Cede & Co. Or to such other entity as is requested by an authorized representative of DTC), any transfer, pledge, or other use hereof for value or otherwise by or to any person is wrongful inasmuch as the registered owner hereof, Cede & Co., has an interest herein.]

[Include following legend if a restricted security]

[This security and the common stock, if any, issuable upon exchange of this security have not been registered under the Securities Act of 1933, as amended (the “Securities Act”), and may not be offered, sold, pledged or otherwise transferred except in accordance with the following sentence. By its acquisition hereof or of a beneficial interest herein, the acquirer:

(1) represents that it and any account for which it is acting is a “qualified institutional buyer” (within the meaning of Rule 144A under the Securities Act) and that it exercises sole investment discretion with respect to each such account, and

(2) agrees for the benefit of MagnaChip Semiconductor S.A. (the “Company”) that it will not offer, sell, pledge or otherwise transfer this security or any beneficial interest herein prior to the date that is the later of (x) one year after the last original issue date hereof or such shorter period of time as permitted by Rule 144 under the Securities Act or any successor provision thereto and (y) such later date, if any, as may be required by applicable law, except:

- (a) to the Company or any subsidiary thereof, or
- (b) pursuant to a registration statement which has become effective under the Securities Act, or
- (c) to a qualified institutional buyer in compliance with Rule 144A under the Securities Act, or
- (d) pursuant to an exemption from registration provided by Rule 144 under the Securities Act or any other available exemption from the registration requirements of the Securities Act.

Prior to the registration of any transfer in accordance with clause (2)(d) above, the Company and the Trustee reserve the right to require the delivery of such legal opinions, certifications or other evidence as may reasonably be required in order to determine that the proposed transfer is being made in compliance with the Securities Act and applicable state securities laws. No representation is made as to the availability of any exemption from the registration requirements of the Securities Act.]

MAGNACHIP SEMICONDUCTOR S.A.

5.00% Exchangeable Senior Note due 2021

No. []

[Initially]¹ \$[]

CUSIP No. []

MagnaChip Semiconductor S.A., a Luxembourg public company limited by shares (*société anonyme*) having its registered address at 1, allée Scheffèr, L-2520 Luxembourg, Grand Duchy of Luxembourg and registered with the *Registre de Commerce et des Sociétés, Luxembourg* under number B 97483 (the “**Company**,” which term includes any successor corporation or other entity under the Indenture referred to on the reverse hereof), for value received hereby promises to pay to [CEDE & CO.]² []³, or registered assigns, the principal sum [as set forth in the “Schedule of Exchanges of Notes” attached hereto]⁴ [of \$[]]⁵, which amount, taken together with the principal amounts of all other outstanding Notes, shall not, unless permitted by the Indenture, exceed \$86,250,000 in aggregate principal amount at any time, in accordance with the rules and procedures of the Depository, on March 1, 2021, and interest thereon as set forth below.

This Note shall bear interest at the rate of 5.00% per year from [] or from the most recent date to which interest had been paid or provided for to, but excluding, the next scheduled Interest Payment Date until March 1, 2021. Interest is payable semi-annually in arrears on each March 1 and September 1, commencing on [March 1, 2017]⁶, to Holders of record at the close of business on the preceding February 15 and August 15 (whether or not such day is a Business Day), respectively. Additional Interest will be payable as set forth in the Section 4.06(d), Section 4.06(f) and Section 6.03 of the within mentioned Indenture, and any reference to interest on, or in respect of, any Note therein shall be deemed to include Additional Interest if, in such context, Additional Interest is, was or would be payable pursuant to any such Section 4.06(d), Section 4.06(f) or Section 6.03, and any express mention of the payment of Additional Interest in any provision therein shall not be construed as excluding Additional Interest in those provisions thereof where such express mention is not made.

Any Defaulted Amounts shall accrue interest per annum at the rate borne by the Notes, subject to the enforceability thereof under applicable law, from, and including, the relevant payment date to, but excluding, the date on which such Defaulted Amounts shall have been paid by the Company, at its election, in accordance with Section 2.03(c) of the Indenture.

The Company shall pay or shall cause the Paying Agent to pay the principal of and interest on this Note, if and so long as such Note is a Global Note, in immediately available funds to the Depository or its nominee, as the case may be, as the registered Holder of such Note.

- 1 Include if a global note.
- 2 Include if a global note.
- 3 Include if a physical note.
- 4 Include if a global note.
- 5 Include if a physical note.
- 6 Any additional Notes may have a different first Interest Payment Date.

As provided in and subject to the provisions of the Indenture, the Company shall pay the principal of any Notes (other than Notes that are Global Notes) at the office or agency designated by the Company for that purpose. The Company has initially designated the Trustee as its Paying Agent and Note Registrar in respect of the Notes and its agency in the Borough of Manhattan, The City of New York, as a place where Notes may be presented for payment or for registration of transfer and exchange.

Reference is made to the further provisions of this Note set forth on the reverse hereof, including, without limitation, provisions giving the Holder of this Note the right to exchange this Note into shares of Common Stock on the terms and subject to the limitations set forth in the Indenture. Such further provisions shall for all purposes have the same effect as though fully set forth at this place.

This Note and the related Note Guarantee, and any claim, controversy or dispute arising under or related to this Note or the related Note Guarantee, shall be construed in accordance with and governed by the laws of the State of New York and for the avoidance of doubt, the applicability of articles 84 through 94-8 of the Luxembourg law of 10 August 1915 on commercial companies, as amended, shall be excluded.

In the case of any conflict between this Note and the related Note Guarantee, on the one hand, and the Indenture, on the other hand, the provisions of the Indenture shall control and govern.

This Note shall not be valid or become obligatory for any purpose until the certificate of authentication hereon shall have been signed manually or by facsimile by the Trustee or a duly authorized authenticating agent under the Indenture.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the Company has caused this Note to be duly executed.

MAGNACHIP SEMICONDUCTOR S.A.

By: _____
Name:
Title:

Dated:

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

U.S. BANK NATIONAL ASSOCIATION as Trustee, certifies that this is one of the Notes described in the within-named Indenture.

By: _____
Authorized Officer

[FORM OF REVERSE OF NOTE]

MAGNACHIP SEMICONDUCTOR S.A.
5.00% Exchangeable Senior Note due 2021

This Note is one of a duly authorized issue of Notes of the Company, designated as its 5.00% Exchangeable Senior Notes due 2021 (the “**Notes**”), limited to the aggregate principal amount of \$86,250,000 all issued or to be issued under and pursuant to an Indenture dated as of January 17, 2017 (the “**Indenture**”), among the Company, the Parent and U.S. Bank National Association (the “**Trustee**”), to which Indenture and all indentures supplemental thereto reference is hereby made for a description of the rights, limitations of rights, obligations, duties and immunities thereunder of the Trustee, the Company, the Parent and the Holders of the Notes. Additional Notes may be issued in an unlimited aggregate principal amount, subject to certain conditions specified in the Indenture. Capitalized terms used in this Note and not defined in this Note shall have the respective meanings set forth in the Indenture.

In case certain Events of Default shall have occurred and be continuing, the principal of, and interest on, all Notes may be declared, by either the Trustee or Holders of at least 25% in aggregate principal amount of Notes then outstanding, and upon said declaration shall become, due and payable, in the manner, with the effect and subject to the conditions and certain exceptions set forth in the Indenture.

Subject to the terms and conditions of the Indenture, the Company will make all payments and deliveries in respect of the Fundamental Change Repurchase Price on the Fundamental Change Repurchase Date and the principal amount on the Maturity Date, as the case may be, to the Holder who surrenders a Note to a Paying Agent to collect such payments in respect of the Note. The Company will pay cash amounts in money of the United States that at the time of payment is legal tender for payment of public and private debts.

The Indenture contains provisions permitting the Company, the Parent and the Trustee in certain circumstances, without the consent of the Holders of the Notes, and in certain other circumstances, with the consent of the Holders of not less than a majority in aggregate principal amount of the Notes at the time outstanding, evidenced as in the Indenture provided, to execute supplemental indentures modifying the terms of the Indenture and the Notes as described therein. It is also provided in the Indenture that, subject to certain exceptions, the Holders of a majority in aggregate principal amount of the Notes at the time outstanding may on behalf of the Holders of all of the Notes waive any past Default or Event of Default under the Indenture and its consequences.

The Notes are issuable in registered form without coupons in denominations of \$1,000 principal amount and integral multiples thereof. At the office or agency of the Company referred to on the face hereof, and in the manner and subject to the limitations provided in the Indenture, Notes may be exchanged for a like aggregate principal amount of Notes of other authorized denominations, without payment of any service charge but, if required by the Company or Trustee, with payment of a sum sufficient to cover any transfer or similar tax that may be imposed in connection therewith as a result of the name of the Holder of the new Notes issued upon such exchange of Notes being different from the name of the Holder of the old Notes surrendered for such exchange.

The Company may not redeem the Notes prior to the Maturity Date, and no sinking fund is provided for the Notes.

Upon the occurrence of a Fundamental Change, the Holder has the right, at such Holder's option, to require the Company to repurchase for cash all of such Holder's Notes or any portion thereof (in principal amounts of \$1,000 or integral multiples thereof on the Fundamental Change Repurchase Date at a price equal to the Fundamental Change Repurchase Price.

Subject to the provisions of the Indenture, the Holder hereof has the right, at its option, during certain periods specified in the Indenture, prior to the close of business on the third Business Day immediately preceding the Maturity Date, to exchange any Notes or portion thereof that is \$1,000 or an integral multiple thereof, into shares of Common Stock at the Exchange Rate specified in the Indenture, as adjusted from time to time as provided in the Indenture.

ABBREVIATIONS

The following abbreviations, when used in the inscription of the face of this Note, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM = as tenants in common

UNIF GIFT MIN ACT = Uniform Gifts to Minors Act

CUST = Custodian

TEN ENT = as tenants by the entirety

JT TEN = joint tenants with right of survivorship and not as tenants in common

Additional abbreviations may also be used though not in the above list.

NOTE GUARANTEE

The Guarantor listed below (hereinafter referred to as the “**Guarantor**,” which term includes any successors or assigns under the Indenture, dated the date hereof, among the Guarantor, the Company (defined below) and U.S. Bank National Association, as trustee (the “**Indenture**”), has irrevocably and unconditionally guaranteed on a senior basis the Note Guarantee Obligations (as defined in Section 13.01 of the Indenture), which include (i) the due and punctual payment of the principal of (including the Fundamental Change Repurchase Price, pursuant to Article 15, as applicable, of the Indenture), premium, if any, interest and Additional Interest, if any, on the Notes and any cash and shares of Common Stock, if any, due upon exchange of the Notes in accordance with Article 14 of the Indenture, on the 5.00% Exchangeable Senior Notes due 2021 (the “**Notes**”) of MagnaChip Semiconductor S.A., a Luxembourg public company limited by shares (*société anonyme*) having its registered address at 1, allée Scheffer, L-2520 Luxembourg, Grand Duchy of Luxembourg and registered with the *Registre de Commerce et des Sociétés, Luxembourg* under number B 97483 (the “**Company**”), whether at the Maturity Date, upon acceleration, upon redemption, upon repurchase in connection with a Fundamental Change or otherwise or upon exchange, the due and punctual payment of interest on overdue principal, premium, if any, Additional Interest, if any, and (to the extent permitted by law) interest on any overdue interest, if any, on the Notes and all other obligations of the Company to the Holders or the Trustee hereunder or under the Notes (including fees, expenses or other) all in accordance with the terms set forth in Article 13 of the Indenture, and (ii) in case of any extension of time of payment or renewal of any Notes or any such other obligations, that the same shall be promptly paid in full when due or performed in accordance with the terms of the extension or renewal, whether at the Maturity Date, by acceleration, call for redemption, upon repurchase in connection with a Fundamental Change or otherwise or exchange.

The obligations of the Guarantor to the Holders of the Notes and to the Trustee pursuant to this Note Guarantee and the Indenture are expressly set forth in Article 13 of the Indenture and reference is hereby made to such Indenture for the precise terms of this Note Guarantee.

No past, present or future director, officer, employee, incorporator, stockholder, partner, member, manager or agent (direct or indirect) of the Guarantor (or any such successor entity), as such, shall have any liability for any obligations of the Guarantor under this Note Guarantee or the Indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation.

The Guarantor hereby waives diligence, presentment, demand of payment, filing of claims with a court in the event of merger or bankruptcy of the Company, any right to require a proceeding first against the Company, the benefit of discussion, protest or notice with respect to the Notes and all demands whatsoever.

This is a continuing Note Guarantee and shall remain in full force and effect and shall be binding upon the Guarantor and its successors and assigns until full and final payment of all of the Company’s obligations under the Notes and Indenture or until legally discharged in accordance with the Indenture and shall inure to the benefit of the successors and assigns of the Trustee and the Holders of the Notes, and, in the event of any transfer or assignment of rights by

any Holder of the Notes or the Trustee, the rights and privileges herein conferred upon that party shall automatically extend to and be vested in such transferee or assignee, all subject to the terms and conditions hereof. This is a Note Guarantee of payment and performance and not of collectability.

This Note Guarantee shall not be valid or obligatory for any purpose until the certificate of authentication on the Note upon which this Note Guarantee is noted shall have been executed by the Trustee under the Indenture by the manual signature of one of its authorized officers.

The obligations of the Guarantor under this Note Guarantee shall be limited to the extent necessary to insure that it does not constitute a fraudulent conveyance under applicable law.

THE TERMS OF ARTICLE 13 OF THE INDENTURE ARE INCORPORATED HEREIN BY REFERENCE.

Capitalized terms used herein have the same meanings given in the Indenture unless otherwise indicated.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the Guarantor has caused this instrument to be duly executed.

Dated:

MAGNACHIP SEMICONDUCTOR CORPORATION, as
Guarantor

By: _____
Name:
Title:

SCHEDULE OF EXCHANGES OF NOTES

MAGNACHIP SEMICONDUCTOR S.A.
5.00% Exchangeable Senior Notes due 2021

The initial principal amount of this Global Note is DOLLARS (\$[]). The following increases or decreases in this Global Note have been made:

Date of exchange	Amount of decrease in principal amount of this Global Note	Amount of increase in principal amount of this Global Note	Principal amount of this Global Note following such decrease or increase	Signature of authorized signatory of Trustee or Custodian
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7 Include if a global note.

[FORM OF NOTICE OF EXCHANGE]

To: U.S. Bank National Association
60 Livingston Avenue
St. Paul, MN 55107
Attention: U.S. Bank Global Corporate Trust Services – MagnaChip Semiconductor S.A.

The undersigned registered owner of this Note hereby exercises the option to exchange this Note, or the portion hereof (that is \$1,000 principal amount or an integral multiple thereof) below designated, into shares of Common Stock in accordance with the terms of the Indenture referred to in this Note, and directs that any cash payable and any shares of Common Stock issuable and deliverable upon such exchange, together with any cash for any fractional share, and any Notes representing any unexchanged principal amount hereof, be issued and delivered to the registered Holder hereof unless a different name has been indicated below. If any shares of Common Stock or any portion of this Note not exchanged are to be issued in the name of a Person other than the undersigned, the undersigned will pay all documentary, stamp or similar issue or transfer taxes, if any in accordance with Section 14.02(d) and Section 14.02(e) of the Indenture. Any amount required to be paid to the undersigned on account of interest accompanies this Note. Capitalized terms used herein but not defined shall have the meanings ascribed to such terms in the Indenture.

Dated: _____

Signature(s)

Signature Guarantee

Signature(s) must be guaranteed by an eligible Guarantor Institution (banks, stock brokers, savings and loan associations and credit unions) with membership in an approved signature guarantee medallion program pursuant to Securities and Exchange Commission Rule 17Ad-15 if shares of Common Stock are to be issued, or Notes are to be delivered, other than to and in the name of the registered holder.

Fill in for registration of shares if to be issued, and Notes if to be delivered, other than to and in the name of the registered holder:

(Name)

(Street Address)

(City, State and Zip Code)

Please print name and address

Principal amount to be exchanged (if less than all): \$ _____

NOTICE: The above signature(s) of the Holder(s) hereof must correspond with the name as written upon the face of the Note in every particular without alteration or enlargement or any change whatever.

Social Security or Other Taxpayer
Identification Number

[FORM OF FUNDAMENTAL CHANGE REPURCHASE NOTICE]

To: U.S. Bank National Association
100 Wall Street – Suite 1600
New York, NY 10005
Attention: U.S. Bank Global Corporate Trust Services – MagnaChip Semiconductor S.A.

The undersigned registered owner of this Note hereby acknowledges receipt of a notice from MagnaChip Semiconductor S.A. (the “Company”) as to the occurrence of a Fundamental Change with respect to the Company and specifying the Fundamental Change Repurchase Date and requests and instructs the Company to pay to the registered holder hereof in accordance with Section 15.01 of the Indenture referred to in this Note (1) the entire principal amount of this Note, or the portion thereof (that is \$1,000 principal amount or an integral multiple thereof) below designated, and (2) if such Fundamental Change Repurchase Date does not fall during the period after a Regular Record Date and on or prior to the corresponding Interest Payment Date, accrued and unpaid interest, if any, thereon to, but excluding, such Fundamental Change Repurchase Date. Capitalized terms used herein but not defined shall have the meanings ascribed to such terms in the Indenture.

In the case of Physical Notes, the certificate numbers of the Notes to be repurchased are as set forth below:

Dated: _____

Signature(s)

Social Security or Other Taxpayer
Identification Number

Principal amount to be repaid (if less than all): \$_____

NOTICE: The above signature(s) of the Holder(s) hereof must correspond with the name as written upon the face of the Note in every particular without alteration or enlargement or any change whatever.

Dated: _____

Signature(s)

Signature Guarantee

Signature(s) must be guaranteed by an eligible Guarantor Institution (banks, stock brokers, savings and loan associations and credit unions) with membership in an approved signature guarantee medallion program pursuant to Securities and Exchange Commission Rule 17Ad-15 if Notes are to be delivered, other than to and in the name of the registered holder.

NOTICE: The signature on the assignment must correspond with the name as written upon the face of the Note in every particular without alteration or enlargement or any change whatever.

**STATEMENT REGARDING
COMPUTATION OF RATIO OF
EARNINGS TO FIXED CHARGES**

	Years Ended December 31,				
	2016	2015	2014	2013	2012
	(in millions except ratios)				
Fixed charges:					
Interest expensed, amortization of debt issuance costs and discount on all indebtedness	\$ 16.2	\$ 16.3	\$ 16.8	\$ 21.1	\$ 23.2
Rent expense	3.0	2.7	3.1	2.9	2.8
Total fixed charges	19.2	19.0	19.9	24.0	26.0
Earnings:					
Income (loss) from continuing operations before income taxes	(25.9)	(100.0)	(115.7)	(60.2)	122.9
Add:					
Fixed charges	19.2	19.0	19.9	24.0	26.0
Total earnings plus fixed charges	\$ (6.7)	\$ (81.0)	\$ (95.8)	\$ (36.2)	\$ 148.9
Ratio of earnings to fixed charges	—	—	—	—	5.7x

The term “fixed charge” means the sum of the following: interest expensed and capitalized, amortized premiums, discounts and capitalized expenses related to indebtedness; and an estimate of interest within rental expense (equal to one-third of rental expense). Management believes this is a reasonable approximation of the interest factor.

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

	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2014	Year Ended December 31, 2013
	(In millions)			
Deficiencies	\$ 25.9	\$ 100.0	\$ 115.7	\$ 60.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-172864, 333-180696, 333-186789, 333-202120 and 333-209756) of MagnaChip Semiconductor Corporation of our report dated February 21, 2017 relating to the consolidated financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ Samil PricewaterhouseCoopers

Seoul, Korea
February 21, 2017

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO
SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, Young-Joon Kim, certify that:

1. I have reviewed this annual report on Form 10-K of MagnaChip Semiconductor Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 21, 2017

/s/ Young-Joon Kim

Young-Joon Kim

Chief Executive Officer

(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO
SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, Jonathan W. Kim, certify that:

1. I have reviewed this annual report on Form 10-K of MagnaChip Semiconductor Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 21, 2017

/s/ Jonathan W. Kim

Jonathan W. Kim

Chief Financial Officer

(Principal Financial and Accounting Officer)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of MagnaChip Semiconductor Corporation (the "Company") hereby certifies, to such officer's knowledge, that:

(i) the Annual Report on Form 10-K of the Company for the year ended December 31, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

Dated: February 21, 2017

/s/ Young-Joon Kim
Young-Joon Kim
Chief Executive Officer
(Principal Executive Officer)

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended or incorporated by reference in any registration statement of the Company filed under the Securities Act of 1933, as amended.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of MagnaChip Semiconductor Corporation (the "Company") hereby certifies, to such officer's knowledge, that:

(i) the Annual Report on Form 10-K of the Company for the year ended December 31, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

Dated: February 21, 2017

/s/ Jonathan W. Kim
Jonathan W. Kim
Chief Financial Officer
(Principal Financial and Accounting Officer)

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended or incorporated by reference in any registration statement of the Company filed under the Securities Act of 1933, as amended.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

