c/o MagnaChip Semiconductor S.A.
1, Allée Scheffer, L-2520
Luxembourg, Grand Duchy of Luxembourg

To Our Stockholders:

You are invited to attend the Annual Meeting of Stockholders of MagnaChip Semiconductor Corporation to be held on June 11, 2019, at 8:00 p.m. Eastern Daylight Time. We are pleased to announce that this year's annual meeting will be held completely virtually via live interactive webcast on the Internet. You will be able to attend, vote and submit your questions during the meeting at *www.virtualshareholdermeeting.com/mx2019*. We have enclosed the notice of our Annual Meeting of Stockholders, together with a proxy statement, a proxy and an envelope for returning the proxy.

You are asked to act upon proposals to:

(1) elect the six director nominees named in the proxy statement to our Board of Directors;

(2) conduct an advisory (non-binding) vote on the compensation of our named executive officers; and

(3) ratify the appointment of Samil PricewaterhouseCoopers as our independent registered public accounting firm for the fiscal year ending December 31, 2019.

Your Board of Directors unanimously recommends that you vote "FOR" each nominee for director that the Board has selected, "FOR" the approval of the compensation of our named executive officers and "FOR" the appointment of Samil PricewaterhouseCoopers as our independent registered public accounting firm for the fiscal year ending December 31, 2019.

Please carefully review the proxy statement and then complete and sign your proxy and return it promptly. If you attend the virtual meeting and decide to vote during the meeting, you may withdraw your proxy by voting at the meeting.

Your time and attention to this letter and the accompanying proxy statement and proxy are appreciated. Your vote is important. Please take the time to read the enclosed proxy statement and cast your vote via proxy or at the meeting.

Sincerely,

/s/ Nader Tavakoli	/s/ Young-Joon Kim
Nader Tavakoli Chairman of the Board	Young-Joon Kim Chief Executive Officer

April 30, 2019

MagnaChip Semiconductor Corporation
c/o MagnaChip Semiconductor S.A.
1, Allée Scheffer, L-2520
Luxembourg, Grand Duchy of Luxembourg

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
June 11, 2019

The Annual Meeting of Stockholders of MagnaChip Semiconductor Corporation, a Delaware corporation, will be held on Tuesday, June 11, 2019, at 8:00 p.m. Eastern Daylight Time, via live interactive webcast on the Internet, for the following purposes:

(1) to elect the six director nominees named in the proxy statement to our Board of Directors;

(2) to conduct an advisory (non-binding) vote on the compensation of our named executive officers;

(3) to ratify the appointment of Samil PricewaterhouseCoopers as our independent registered public accounting firm for the fiscal year ending December 31, 2019; and

(4) to transact such other business as may properly come before the meeting.

Holders of record of our common stock at the close of business on Thursday, April 18, 2019, are entitled to vote at the meeting. A list of stockholders entitled to vote will be available for inspection by stockholders of record for any purpose germane to the Annual Meeting during ordinary business hours at our offices at MagnaChip Semiconductor Corporation, c/o MagnaChip Semiconductor, Inc., 60 South Market Street, Suite 750, San Jose, CA 95113, for ten days prior to the Annual Meeting. If you are a stockholder of record and would like to view this stockholder list, please contact Investor Relations at (408) 625-1262. Additionally, such list of stockholders will be made available for viewing electronically during the Annual Meeting, and instructions to access such list will be available on the date of the Annual Meeting at *www.virtualshareholdermeeting.com/mx2019.*

By Order of the Board of Directors

/s/ Theodore Kim

Theodore Kim
Executive Vice President, General Counsel, Chief Compliance Officer and Secretary

April 30, 2019

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to Be Held on June 11, 2019

The 2019 Proxy Statement and 2018 Annual Report are available, free of charge, at http://www.proxyvote.com.

The Company's Annual Report for the year ended December 31, 2018 is being mailed to stockholders concurrently with the 2019 Proxy Statement. The Annual Report contains financial and other information about the Company, but is not incorporated into the Proxy Statement and is not deemed to be a part of the proxy soliciting materials.

Even if you expect to attend the Annual Meeting, please promptly complete, sign, date and mail the enclosed proxy card. A self-addressed envelope is enclosed for your convenience. No postage is required if mailed in the United States. Alternatively, if you are a holder of record of our common stock on the record date, you may vote your shares electronically either over the internet at http://www.proxyvote.com or by touch-tone telephone at 1-800-690-6903. Stockholders who attend the Annual Meeting may revoke their proxies and vote during the meeting at *www.virtualshareholdermeeting.com/mx2019* if they so desire.

TABLE OF CONTENTS

MagnaChip Semiconductor Corporation
c/o MagnaChip Semiconductor S.A.
1, Allée Scheffer, L-2520
Luxembourg, Grand Duchy of Luxembourg

PROXY STATEMENT

ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON JUNE 11, 2019

GENERAL INFORMATION

Why am I receiving these materials?

We sent you these proxy materials because the Board of Directors (the "Board") of MagnaChip Semiconductor Corporation (the "Company," "MagnaChip," "we," "us," and "our") is soliciting your proxy to vote at the 2019 Annual Meeting of Stockholders (the "Annual Meeting") and at any postponements or adjournments of the Annual Meeting. The Annual Meeting will be held virtually via live interactive webcast on the Internet on June 11, 2019, at 8:00 p.m. Eastern Daylight Time. If you held shares of our Common Stock on April 18, 2019 (the "Record Date"), you are invited to attend the Annual Meeting at *www.virtualshareholdermeeting.com/mx2019* and vote on the proposals described below under the heading "What am I voting on?" However, you do not need to attend the Annual Meeting to vote your shares. Instead, you may complete, sign, date, and return the enclosed proxy card. You may also vote over the Internet or by telephone.

The Notice of Annual Meeting of Stockholders, Proxy Statement, the enclosed proxy card, and our Annual Report on Form 10-K for the fiscal year ended December 31, 2018 are being mailed to stockholders commencing on or about April 30, 2019.

What am I voting on?

There are three proposals scheduled to be voted on at the Annual Meeting:

1. Election of the six director nominees specified in this Proxy Statement to serve until the 2020 Annual Meetings of Stockholders and until their respective successors are elected and qualified;
2. Approval on an advisory (non-binding) basis of the compensation of our named executive officers as described in this Proxy Statement; and
3. Ratification of the appointment of Samil PricewaterhouseCoopers as our independent registered public accountants for the fiscal year ending December 31, 2019.

How does the Board recommend that I vote?

Our Board recommends that you vote your shares:

"FOR" the election of each of the six director nominees named in this Proxy Statement to hold office until the 2020 Annual Meetings of Stockholders and until their respective successors are elected and qualified;

"FOR" the approval on an advisory (non-binding) basis of the compensation of the named executive officers as described in this Proxy Statement; and

"FOR" the ratification of the appointment of Samil PricewaterhouseCoopers as our independent registered public accountants for the fiscal year ending December 31, 2019.

Who can vote at the Annual Meeting?

If you were a holder of record of the Company's common stock (the "Common Stock") as of the close of business on April 18, 2019, the Record Date for the Annual Meeting, you may vote your shares at the Annual Meeting. As of the Record Date, there were 34,223,502 shares of MagnaChip Common Stock outstanding, excluding treasury shares. Company treasury shares will not be voted. Each stockholder has one vote for each share of Common Stock held as of the Record Date.

If, on the Record Date, your shares were held in an account at a broker, bank, or other financial institution (we will refer to those organizations collectively as "broker"), then you are the beneficial owner of shares held in "street name" and these proxy materials are being forwarded to you by that broker. The broker holding your account is considered the stockholder of record for purposes of voting at the Annual Meeting. As the beneficial owner, you have the right to direct your broker on how to vote the shares in your account. As a beneficial owner, you are invited to attend the Annual Meeting via the Internet at *www.virtualshareholdermeeting.com/mx2019*. However, since you are not a stockholder of record, you may not vote your shares at the Annual Meeting unless you request and obtain a valid proxy from your broker.

How can I attend the Annual Meeting?

You are invited to attend the Annual Meeting, if you are a stockholder of record or a beneficial owner as of April 18, 2019, live via the Internet at *www.virtualshareholdermeeting.com/mx2019*. You must have your Control Number listed on the enclosed proxy card to enter the meeting. The webcast starts at 8:00 p.m. Eastern Daylight Time. You may vote and submit questions while attending the meeting on the Internet. Instructions on how to attend and participate in the Annual Meeting via the Internet, including how to demonstrate proof of stock ownership, are posted at *www.virtualshareholdermeeting.com/mx2019*. The audio broadcast will be archived on that website for one year.

What if I return the proxy card to the Company but do not make specific choices?

If you return a signed, dated, proxy card to the Company without making any voting selections, the Company will vote your shares (1) "FOR" the election of each of the six director nominees named in this Proxy Statement to hold office until the 2020 Annual Meetings of Stockholders and until their respective successors are elected and qualified; (2) "FOR" the approval on an advisory (non-binding) basis of the compensation of our named executive officers as disclosed in this Proxy Statement; and (3) "FOR" the ratification of the appointment of Samil PricewaterhouseCoopers as our independent registered public accountants for the fiscal year ending December 31, 2019.

The Company does not expect that any matters other than the election of directors and the other proposal described in this Proxy Statement will be brought before the Annual Meeting. The persons appointed as proxies will vote in their discretion on any other matters that may properly come before the Annual Meeting or any postponements or adjournments thereof, including any vote to postpone or adjourn the Annual Meeting.

How many shares must be present or represented to conduct business at the Annual Meeting?

A quorum of stockholders is necessary to hold a valid annual meeting. A quorum will be present if the holders of at least a majority of the total number of shares of Common Stock entitled to vote are present, in person or by proxy, at the Annual Meeting. Abstentions and shares represented by broker non-votes are counted for the purpose of determining whether a quorum is present. If there are insufficient votes to constitute a quorum at the time of the Annual Meeting, we may adjourn the Annual Meeting to solicit additional proxies.

Proxy

How are votes counted and what is a broker non-vote?

Votes will be counted by the inspector of election appointed for the Annual Meeting, who will separately count "FOR," "AGAINST," "WITHHOLD," abstentions and broker non-votes. A "broker non-vote" occurs when your broker submits a proxy card for your shares of Common Stock held in street name, but does not vote on a particular proposal because the broker has not received voting instructions from you and does not have the authority to vote on that matter without instructions. Under the rules that govern brokers who are voting shares held in street name, brokers have the discretion to vote those shares on routine matters but not on non-routine matters. For purposes of these rules, the only routine matter in this Proxy Statement is Proposal Three—the ratification of our independent registered public accounting firm for the fiscal year ending December 31, 2019. Non-routine matters in this Proxy Statement are Proposal One—the election of directors and Proposal Two—the advisory (non-binding) vote on the compensation of our named executive officers. Therefore, if you hold your shares in street name and do not provide voting instructions to your broker, your broker does not have discretion to vote your shares on any proposal at the Annual Meeting other than Proposal Three—the ratification of our independent registered public accounting firm for the fiscal year ending December 31, 2019. However, your shares will be considered present at the Annual Meeting for purposes of determining the existence of a quorum.

What is the voting requirement to approve each of the proposals?

Proposal One—Election of Directors

The election of director nominees requires a plurality vote of the shares present in person or represented by proxy at the Annual Meeting and entitled to vote in the election of directors. The director nominees receiving the highest number of "FOR" votes cast by the holders of our Common Stock entitled to vote at the Annual Meeting will be elected. Accordingly, "WITHHOLD" votes and broker non-votes will have no effect on the outcome of the election of directors. Stockholders have no right to cumulative voting as to any matters, including the election of directors.

Proposal Two—Advisory Vote on Compensation of our Named Executive Officers

The proposal to approve on an advisory (non-binding) basis the compensation of our named executive officers for the fiscal year ended December 31, 2018 as described in this Proxy Statement requires the affirmative vote of a majority of the shares present in person or represented by proxy at the Annual Meeting and entitled to vote on such proposal. Abstentions will be included in the number of shares present and entitled to vote and will therefore have the same effect as a vote "AGAINST" the proposal. Broker non-votes will not be included in calculating the number of votes entitled to vote on this proposal and will therefore have no effect on the outcome of this proposal.

Proposal Three—Ratification of the Appointment of our Independent Registered Public Accounting Firm for the Fiscal Year Ending December 31, 2019

The proposal to ratify the appointment of Samil PricewaterhouseCoopers requires the affirmative vote of a majority of the shares present in person or represented by proxy at the Annual Meeting and entitled to vote on such proposal. Abstentions will be included in the number of shares present and entitled to vote and will therefore have the same effect as a vote "AGAINST" this proposal. Brokers have discretionary authority to vote uninstructed shares on this proposal.

How do I vote my shares of MagnaChip Common Stock?

Stockholders may vote shares of our Common Stock using any of the following means:

Voting by Proxy Cards. A registered stockholder may vote shares until voting is completed at the Annual Meeting by returning a duly completed and executed proxy card in the postage-paid envelope included. All proxy cards received by us that have been properly signed and have not been revoked will be voted in accordance with the instructions contained in the proxy cards. For your mailed proxy card to be counted, we must receive it prior to the close of business on June 10, 2019.

Voting by Telephone or Internet. A registered stockholder may vote shares until 11:59 p.m. Eastern Daylight Time on June 10, 2019 by calling the toll-free number indicated on the proxy card and following the recorded instructions or by accessing the website indicated on the proxy card and following the instructions provided. When a stockholder votes by telephone or Internet, his, her or its vote is recorded immediately.

Voting by Internet During the Annual Meeting. Instructions on how to attend and vote at the meeting are described at *www.virtualshareholdermeeting.com/mx2019*. If a stockholder attends the Annual Meeting and votes his, her or its shares during the meeting via the voting instructions described at *www.virtualshareholdermeeting.com/mx2019* then any previous votes that were submitted by the stockholder, whether by Internet, telephone or mail, will be superseded by the vote that such stockholder casts during the Annual Meeting. Further, if the shares are held of record by a broker and a stockholder wishes to vote at the Annual Meeting, he, she or it must obtain a proxy issued in his, her or its name from the record holder in accordance with the materials and instructions for voting provided by his, her or its broker.

Voting by "Street Name" Stockholders. If stockholders hold shares in "street name," then those stockholders may vote in accordance with the materials and instructions for voting the shares provided by their broker. If "street name" stockholders wish to vote shares at the Annual Meeting, then they must obtain proxies from their broker in order to vote their shares at the Annual Meeting in accordance with the materials and instructions for voting provided by his, her or its broker. If a "street name" stockholder does not vote by proxy or otherwise give voting instructions to their broker, such shares will not be voted by the broker for Proposal One or Two at the Annual Meeting.

Changing Votes. A stockholder may change his, her or its vote at any time before it is voted at the Annual Meeting by (1) delivering a proxy revocation or another duly executed proxy bearing a later date to MagnaChip Semiconductor Corporation, c/o MagnaChip Semiconductor, Inc., 60 South Market Street, Suite 750, San Jose, CA 95113, Attention: Secretary, which revocation or later-dated proxy is received by us prior to the close of business on June 10, 2019; (2) voting again by telephone or Internet in the manner described above prior to 11:59 p.m., Eastern Daylight Time, on June 10, 2019; or (3) attending the Annual Meeting and voting via the Internet during the meeting using the procedures described at *www.virtualshareholdermeeting.com/mx2019*. Attending the Annual Meeting via the Internet will not revoke a proxy unless the stockholder actually votes via the Internet during the meeting. "Street name" stockholders who wish to revoke or change their votes after returning voting instructions to their broker may do so in accordance with the materials and instructions provided by their broker or by contacting such broker to effect the revocation or change of vote.

How can I find out the results of the Annual Meeting?

Preliminary voting results will be announced at the Annual Meeting. We will publish final results in a Current Report on Form 8-K that we expect to file with the Securities and Exchange Commission (the "SEC") within four business days of the Annual Meeting. After the Form 8-K is filed, you may obtain a copy by visiting the investor relations section of our website or *www.magnachip.com* or by writing to MagnaChip Semiconductor Corporation, c/o MagnaChip Semiconductor, Inc., 60 South Market Street, Suite 750, San Jose, CA 95113, Attention: Secretary.

Proxy

PROPOSAL ONE

ELECTION OF DIRECTORS

The members of our Board are elected to one-year terms, with each director to serve until such director's successor is elected and qualified or until such director's earlier resignation or removal. We have six authorized members on our Board. The number of directors may be changed by our Board from time to time by resolution of a majority of the authorized directors, or by amendment of our bylaws by the affirmative vote of 66-2/3% of the outstanding voting stock of the Company, voting together as a single class.

At the Annual Meeting, six directors are to be elected to hold office for a one-year term and until their successors are elected and qualified. The nominees to the Board are Mr. Melvin L. Keating, Mr. Young-Joon Kim, Dr. Ilbok Lee, Mr. Camillo Martino, Mr. Gary Tanner and Mr. Nader Tavakoli.

Information regarding the nominees and each continuing director is set forth below. Each of the nominees listed in the proxy statement has agreed to serve as a director if elected. If for some unforeseen reason a nominee becomes unwilling or unable to serve, proxies will be voted for a substitute nominee selected by the Board.

The following table sets forth certain information regarding our director nominees:

Name	Age	Position
Nader Tavakoli	61	Non-Executive Chairman of the Board and Member of the Audit Committee, the Compensation Committee and Risk Committee
Melvin L. Keating	72	Director, Chair of the Audit Committee and Member of the Nominating and Corporate Governance Committee
Young-Joon (YJ) Kim	54	Director, Member of the Risk Committee, and Chief Executive Officer
Ilbok Lee	73	Director, Chair of the Nominating and Corporate Governance Committee and Member of the Risk Committee
Camillo Martino	57	Director, Chair of the Compensation Committee and Member of the Nominating and Corporate Governance Committee
Gary Tanner	66	Director, Chair of the Risk Committee and Member of the Audit Committee and the Compensation Committee

Nader Tavakoli, Non-Executive Chairman of the Board and Member of the Audit Committee, the Compensation Committee and Risk Committee. Mr. Tavakoli became our Non-Executive Chairman of the Board in November 2018 and director in November 2009. Mr. Tavakoli is the former Chairman, CEO and President of Ambac Financial Group and Ambac Assurance Corporation, having led the operational and financial restructuring of Ambac from 2012 through 2016. Prior to assuming executive responsibility at Ambac, Mr. Tavakoli served as a financial advisor and independent director at the company, and served on the audit and compensation committees of Ambac's board. Since 2013, Mr. Tavakoli has served as a Plan Administrator and Director of MF Global Inc., and also serves as the company's court appointed Litigation Trustee charged with pursuing certain claims on behalf of the company's stakeholders. Mr. Tavakoli also serves as the CEO and Plan Administrator of Cobalt International Energy and as the Trustee of TRU Taj LLC, the successor in interest of Toys R Us' European and Australian operations. Mr. Tavakoli is also the Chairman and CEO of EagleRock Capital Management, a private investment partnership based in New York City. Prior to founding EagleRock in 2002, Mr. Tavakoli managed substantial investment portfolios with Odyssey Partners and Highbridge Capital Management. Mr. Tavakoli began his professional career as an attorney with the New York City law firm of Milbank, Tweed, Hadley and McCloy, where he represented institutional clients in banking, litigation and corporate restructuring matters. Mr. Tavakoli previously served as Chairman of the Board of the holding company for Aman Resorts Group, an international hospitality and real estate development company, and was a director of NextWave Wireless, Inc., prior to that company's acquisition by AT&T Inc. in January 2013.

Mr. Tavakoli is the past chair of the Montclair State University Foundation Board and its investment committee. Mr. Tavakoli holds a B.A. in History from Montclair State University, where he was selected Valedictorian, and a Juris Doctor from the Rutgers Law School, where he was an Editor of the Rutgers Law Review. Mr. Tavakoli is a Governance Leadership Fellow of the National Association of Corporate Directors. Our Board has concluded that Mr. Tavakoli should serve on the Board based upon his familiarity with our business, extensive investing and corporate governance experience.

Melvin L. Keating, Director, Chair of the Audit Committee and Member of the Nominating and Corporate Governance Committee. Mr. Keating became our director in August 2016. Mr. Keating serves as a consultant, providing investment advice and other services to private equity firms and corporations, since November 2008. In addition, since September 2015, Mr. Keating serves as a director of Agilysys Inc., a leading technology company that provides innovative software for point-of-sale (POS), property management, inventory and procurement, workforce management, analytics, document management and mobile and wireless solutions and services to the hospitality industry. Mr. Keating also currently serves as a director of SPS Commerce, Inc., a provider of cloud-based supply management solutions, Vitamin Shoppe, Inc., an Omni-Channel Specialty Retailer of Nutritional Products and Harte Hanks, Inc., a leader in developing customer relationships, experiences and defining interaction-led marketing. During the past five years, Mr. Keating also served on the boards of directors of the following public companies: Red Lion Hotels Corporation (2010-2017); API Technologies Corp.; Crown Crafts Inc. (August 2010—August 2013) and ModSys International Ltd. (formerly BluePhoenix Solutions Ltd.), a legacy platform modernization provider. Mr. Keating holds a B.A. degree in Art History from Rutgers University (where he was a Henry Rutgers Scholar), as well as an M.S. in Accounting (he was a Shell Oil Fellow) and an M.B.A. in Finance (he was a Benjamin Franklin Fellow), both from the Wharton School of the University of Pennsylvania. Our Board has concluded that Mr. Keating should serve on the Board based upon his extensive experience advising technology companies.

Young-Joon (YJ) Kim, Director, Member of the Risk Committee and Chief Executive Officer. Mr. YJ Kim became our Chief Executive Officer and director in May 2015. Mr. YJ Kim joined our company in May 2013 and served as our Executive Vice President and General Manager, Display Solutions Division. He was promoted to Interim Chief Executive Officer in May 2014. He also served as the acting General Manager of our Foundry Services Group from May to November 2015. Prior to joining our company, Mr. YJ Kim held a variety of senior management roles at several global semiconductor firms in a career spanning nearly 30 years. His past roles include marketing, engineering, product development and strategic planning, and his product expertise includes microprocessors, network processors, FLASH, EPROM, analog, mixed-signal, sensors, workstations and servers. Immediately before joining the Company, Mr. YJ Kim served as Vice President, Infrastructure Processor Division, and General Manager of the OCTEON Multi-Core Processor Group of Cavium, Inc., where he worked from 2006 to 2013 and led the team that founded Cavium's wireless infrastructure business and added the full LTE Basestation SoC to Cavium's OCTEON Processor™ portfolio. Prior to Cavium, Mr. YJ Kim served as Core Team Lead and General Manager of the Tolapai Program at Intel Corporation from 2004 to 2006. In 1998, Mr. YJ Kim co-founded API Networks, a joint venture between Samsung and Compaq, where he served as the head of product management, worldwide sales and business development for Alpha processors. Prior to API Networks, Mr. YJ Kim served as Director of Marketing at Samsung Semiconductor, Inc. from 1996 to 1998. Mr. YJ Kim began his career as a product engineer at Intel Corporation. Mr. YJ Kim holds B.S. and M. Eng. degrees in Electrical Engineering from Cornell University. Our Board has concluded that Mr. YJ Kim should serve on the Board based on his understanding of the Company's products and technology as our Chief Executive Officer and his deep knowledge of the semiconductor industry.

Ilbok Lee, Director, Chair of the Nominating and Corporate Governance Committee, and Member of the Risk Committee. Dr. Lee became our director in August 2011. Dr. Lee served as an advisor/consultant to the Configurable Mixed-signal Business Unit of Dialog Semiconductor, Inc., which acquired Silego Technology Inc., a semiconductor company, or Silego, in October 2017. Dr. Lee served as Executive Chairman of Silego from August 2016 to October 2017. Dr. Lee also served as Silego's Chairman of the Board from March 2015 to August 2016 and as Silego's Chief Executive Officer from Silego's inception in October 2001 until August 2016.

He also served as Silego's President from October 2001 until March 2015. From April 1999 to September 2001, Dr. Lee served as Senior Vice President and General Manager of the Timing Division at Cypress Semiconductor Corp., a public semiconductor company, and from May 1992 to March 1999 served as President and Chief Executive Officer of IC Works, Inc., a semiconductor company he co-founded that was acquired by Cypress in 2001. Dr. Lee co-founded Samsung Semiconductor, Inc. (U.S.A.) in July 1983 and served in various positions at the company, including President and Chief Executive Officer, until May 1992. Prior to Samsung, Dr. Lee served in various technical and managerial positions at Intel and National Semiconductor. Dr. Lee served as a member of the board of directors for Sierra Monolithic, a privately held semiconductor company, from 2002 through 2009. Dr. Lee received a Ph.D. and M.S.E.E. from the University of Minnesota and a B.S.E.E. from Seoul National University. Our Board has concluded that Dr. Lee should serve on our Board based upon his extensive experience in the semiconductor industry.

Camillo Martino, Director, Chair of the Compensation Committee and Member of the Nominating and Corporate Governance Committee. Mr. Martino became our director in August 2016. Mr. Martino currently also serves as a member of the board of directors for Cypress Semiconductor Corporation and Sensera Limited. Mr. Martino also serves as a member of the board of directors at multiple privately-held companies, including VVDN Technologies Pvt. Ltd. and SAI Technology Inc. and CyberForza. Mr. Martino previously served as a director and the Chief Executive Officer of Silicon Image Inc. from January 2010 until the completion of its sale to Lattice Semiconductor Corporation in March 2015. From January 2008 to December 2009, Mr. Martino served as Chief Operating Officer of SAI Technology Inc., where he also served as a director from June 2006 to November 2010. From July 2005 to June 2007, Mr. Martino served as a director, the President and Chief Executive Officer of Cornice Inc. From August 2001 to July 2005, Mr. Martino served as the Executive Vice President and Chief Operating Officer at Zoran Corporation. Prior to that, Mr. Martino held multiple positions with National Semiconductor Corporation for a total of nearly 14 years, and in four different countries. Mr. Martino holds a Bachelor of Applied Science degree from the University of Melbourne and a Graduate Diploma from Monash University in Australia. Our Board has concluded that Mr. Martino should serve on the Board based upon his extensive experience advising technology companies.

Gary Tanner, Director, Chair of the Risk Committee and Member of the Audit Committee and the Compensation Committee. Mr. Tanner became our director in August 2015. Mr. Tanner served as a director of Winstek Semiconductor Corp. which is listed on the Taiwan Stock Exchange (OTC) from September 2015 until November 2017 when majority ownership of Winstek Semiconductor was acquired by Siguard Corporation. Mr. Tanner served as Executive Vice President and Chief Operations Officer of International Rectifier Corporation from January 2013 to July 2015. Mr. Tanner also served as a director at STATS ChipPac Ltd. from July 2012 until August 2015. Prior to joining International Rectifier Corporation, Mr. Tanner was the principal in GWT Consulting and Investments LLC, a firm that provided consulting services to International Rectifier Corporation from January through December 2012. Mr. Tanner previously served as Chief Executive Officer at Zarlink Semiconductor, Inc. ("Zarlink"), from May 2011 to October 2011, when Zarlink was acquired by Microsemi Corporation in October 2011. Prior to his role as Chief Executive Officer of Zarlink, from November 2009 to May 2011, Mr. Tanner served as Chief Operating Officer at that company. Mr. Tanner joined Zarlink in August 2007 as Senior Vice President of Worldwide Operations via the acquisition of Legerity, Inc., where Mr. Tanner served as the Vice President of Operations from November 2002 until August 2007. Before Legerity/Zarlink, Mr. Tanner worked for nine years at Intel Corporation, where he held various positions managing domestic and international manufacturing operations. Prior to Intel, Mr. Tanner held various management positions in fab operations at National Semiconductor, Texas Instruments and NCR Corporation. Our Board has concluded that Mr. Tanner should serve on the Board based upon his extensive experience in the semiconductor industry.

THE BOARD OF DIRECTORS AND CORPORATE GOVERNANCE

Director Independence

The Board reviews the independence of each director annually. In determining the independence of our directors, our Board considered Section 303A of the NYSE listing standards and broadly considered the materiality of each director's relationship with us. Based upon the foregoing criteria, our Board has determined that the following directors are independent: Mr. Keating, Dr. Lee, Mr. Martino, Mr. Tanner and Mr. Tavakoli.

Board Meetings

The Board held 25 meetings during fiscal year 2018. All of the directors attended at least 91% of the total meetings held by the Board and by all committees on which they served during fiscal year 2018.

Attendance at Annual Meeting

The Company's Corporate Governance Guidelines as currently in effect provide that all directors shall make every effort to attend the Company's annual meeting of stockholders. All of our directors attended our 2018 Annual Meeting of Stockholders.

Committees

The Board has four standing committees: the Audit Committee, the Compensation Committee, the Nominating and Corporate Governance Committee and the Risk Committee. The Board establishes ad hoc committees from time to time, which currently includes the Strategic Review Committee. The Advisory Committee of the board was dissolved by the Board in November 2018.

The Board has adopted written charters for the Audit Committee, the Compensation Committee, the Nominating and Corporate Governance Committee and the Risk Committee. These charters, as well as our Code of Business Conduct and Ethics and our Corporate Governance Guidelines, are posted and available on our website at *www.magnachip.com*. The information on or accessible through our website is not a part of or incorporated by reference in this proxy statement.

Audit Committee

Our Audit Committee consists of Mr. Keating, as Chair, Mr. Tanner and Mr. Tavakoli. Our Board has determined that Mr. Keating is an audit committee financial expert as defined in Item 407(d)(5) of Regulation S-K promulgated under the Securities Act of 1933, as amended. Our Board has also determined that each of Mr. Keating, Mr. Tanner and Mr. Tavakoli is independent as that term is defined in Section 303A of the New York Stock Exchange ("NYSE") listing standards and Rule 10A-3 promulgated under the Exchange Act of 1934, as amended (the "Exchange Act").

The Audit Committee held nine meetings in 2018. The primary purpose of the Audit Committee is to assist our Board in fulfilling its oversight responsibilities by reviewing and reporting to the Board on the integrity of the financial reports and other financial information provided by the Company to the public, the SEC and any other governmental regulatory body, and on the Company's compliance with other legal and regulatory requirements. The Audit Committee is responsible for the appointment, retention, review and oversight of the Company's independent auditor, and the review and oversight of the Company's internal financial reporting, policies and processes. The Audit Committee is also responsible for reviewing related party transactions, risk management, and legal and ethics compliance.

Compensation Committee

Our Compensation Committee consists of Mr. Martino, as Chair, Mr. Tanner and Mr. Tavakoli. Our Board has determined that each of Mr. Martino, Mr. Tanner and Mr. Tavakoli is independent under applicable NYSE listing standards.

The Compensation Committee held 19 meetings in 2018. The Compensation Committee has overall responsibility for evaluating and approving our executive officer and director compensation plans, policies and programs, as well as all equity-based compensation plans and policies.

Nominating and Corporate Governance Committee

Our Nominating and Corporate Governance Committee consists of Dr. Lee, as Chair, Mr. Keating and Mr. Martino. Our Board has determined that each of Dr. Lee, Mr. Keating and Mr. Martino is independent under applicable NYSE listing standards.

The Nominating and Corporate Governance Committee held 11 meetings in 2018. The Nominating and Corporate Governance Committee identifies individuals qualified to become board members, recommends director nominees, recommends board members for committee membership, develops and recommends corporate governance principles and practices and director orientation and continuing education, oversees the evaluation of our Board and its committees and formulates a description of the skills and attributes of desirable board members. The Nominating and Corporate Governance Committee will also consider candidates recommended by our stockholders so long as the proper procedures are followed.

Our bylaws provide that stockholders seeking to nominate candidates for election as directors at an annual meeting must provide timely notice of such nominations in writing. To be timely, a stockholder’s notice generally must be received in writing at the Company’s offices at MagnaChip Semiconductor Corporation, c/o MagnaChip Semiconductor, Inc., 60 South Market Street, Suite 750, San Jose, CA 95113, Attention: Secretary, not earlier than the close of business on the 120th day, nor later than the close of business on the 90th day, prior to the first anniversary of the date of the preceding year’s annual meeting as first specified in the Company’s notice of meeting (without regard to any postponements or adjournments of such meeting after such notice was first sent), except that if no annual meeting was held in the previous year or the date of the annual meeting is more than 30 days earlier or later than such anniversary date, notice by the stockholders to be timely must be received not later than the close of business on the later of the 90th day prior to the annual meeting or the 10th day following the date on which public announcement of the date of such meeting is first made. A stockholder’s notice must set forth, among other things,

- the name and address of the stockholder who intends to make the nomination, and the names and addresses of the beneficial owners, if any, on whose behalf the nomination is being made and of the person or persons to be nominated;
- a representation that the stockholder is a holder of record of stock of the Company entitled to vote for the election of Directors on the date of such notice and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice;
- certain information regarding the ownership and other interests of the stockholder or such other beneficial owner;
- a description of all arrangements or understandings between the stockholder or such beneficial owner and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the stockholder;
- a description of all direct and indirect compensation and other material monetary agreements, arrangements and understandings during the past three years, and any other material relationships, between or among such stockholder and such other beneficial owner, if any, and their respective affiliates and associates and each proposed nominee;

- certain other information regarding each nominee proposed by such stockholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the SEC; and
- the consent of each nominee to serve as a director of the Company if so elected.

A stockholder must also comply with all other applicable requirements of the Exchange Act and the rules and regulations under the Exchange Act with respect to matters relating to nominations of candidates for directors. The preceding is a summary of the stockholder nomination procedures set forth in our bylaws as currently in effect, and we refer our stockholders to the full text of Section 2.15 and such other applicable provisions of our bylaws as in effect from time to time for the specific requirements of such director nomination procedures by stockholders.

In addition to the formal procedures set forth in our bylaws for the nomination of directors by stockholders, the Nominating and Corporate Governance Committee has adopted a Policy Regarding Director Nominations pursuant to which it may from time to time evaluate candidates for nomination as director that come to its attention through incumbent directors, management, stockholders or third parties. The Nominating and Corporate Governance Committee has and may in the future, if it deems appropriate under the circumstances, engage a third-party search firm to assist in identifying qualified candidates. Such informal recommendations by stockholders should be directed to the attention of the Nominating and Corporate Governance Committee as set forth below under "—Communications with Directors."

The Nominating and Corporate Governance Committee seeks director candidates who possess high quality business and professional experience, possess the highest personal and professional ethics, integrity and values, and who have an inquisitive and objective perspective and mature judgment. Director candidates must also be committed to representing the best interests of our stockholders and have sufficient time available in the judgment of the Nominating and Corporate Governance Committee to perform all Board and committee responsibilities. The Nominating and Corporate Governance Committee has no formal policy on diversity in identifying potential director candidates, but does regularly assess the needs of the Board for various skills, background and business experience in determining if the Board requires additional candidates for nomination.

Risk Committee

Our Risk Committee consists of Mr. Tanner, as Chair, Mr. YJ Kim, Dr. Lee and Mr. Tavakoli. The Risk Committee held four meetings in 2018. The Risk Committee assists the Board in its oversight of the Company's management of key risks, as well as the guidelines, policies and processes for monitoring and mitigating such risks. The Risk Committee's primary responsibility is to oversee and approve the implementation of Company-wide risk and crisis management best practices. Other responsibilities of the Risk Committee include providing input to management in identifying, assessing, mitigating and monitoring enterprise-wide risks the Company faces, including cybersecurity risks, and reviewing the Company's business practices, compliance activities and enterprise risk management and making recommendations to the Board related to such review.

Board Leadership Structure

Separation of Chairman and Chief Executive Officer

Our Corporate Governance Guidelines state that the Board shall elect its Chairman and appoint the Company's Chief Executive Officer according to its view of what is best for the Company at any given time. The Board does not believe there should be a fixed rule as to whether the offices of Chairman and Chief Executive Officer should be vested in the same person or two different people, or whether the Chairman should be an employee of the Company or should be elected from among the non-employee directors. The needs of the Company and the individuals available to play these roles may dictate different outcomes at different times, and the Board believes that retaining flexibility in these decisions is in the best interest of the Company.

Currently, Mr. Tavakoli serves as the Company's Chairman of the Board and Mr. YJ Kim serves as the Company's Chief Executive Officer. Following the Annual Meeting, Mr. Tavakoli will continue to serve as Chairman of the Board, subject to his election as a director at the Annual Meeting. The Board may, however, make changes to its leadership structure in the future as it deems appropriate.

Lead Director

In the event that positions of Chairman and Chief Executive Officer are held by the same person, on an annual basis the independent members of the Board will select a lead director from the independent directors then serving on the Board (the "Lead Director"). The length of service as Lead Director is subject to the Board's discretion, but will be a minimum of one year. The Lead Director has the authority to call meetings of the independent directors.

Executive Sessions of the Board

The Company's non-management directors meet at regularly scheduled Board meetings in executive session without management present. In 2018, the Chairman presided over the meetings of the non-management directors. In addition, in accordance with our Corporate Governance Guidelines, the independent members of the Board meet at least twice a year in executive session, with the Chairman setting the agenda and presiding over such meetings.

Presiding Director

In accordance with our Corporate Governance Guidelines, the presiding director of the Board is the Chairman of the Board, if present, or in such person's absence and if applicable, the Lead Director, or in such person's absence, the Audit Committee Chairman, or in such person's absence, the independent director present who has the most seniority on the Board. The presiding director presides at all meetings of the Board and is responsible for chairing the Board's executive sessions.

Board Role in Risk Oversight

Our Board is responsible for overseeing our management of risk. The Board created a Risk Committee to assist in overseeing management's identification and evaluation of key enterprise risks to the Company, as well as guidelines, policies and processes for monitoring and mitigating such risks. In particular, the Risk Committee focuses on strategic enterprise risks, including risks associated with intellectual property; business operations and disaster recovery capabilities; and data security, privacy, technology and information security policies, procedures, and internal controls, including those related to cybersecurity and cyber incident responses and reporting procedures.

Our Audit Committee also has certain statutory, regulatory, and other responsibilities with respect to oversight of risk assessment and risk management. Specifically, the Audit Committee is responsible for overseeing policies with respect to financial risk assessment and those other items specifically set forth in our Audit Committee charter. The Risk Committee coordinates with the Audit Committee as necessary and appropriate to enable the Audit Committee to perform its responsibilities.

The Board's other independent committees also oversee risks associated with their respective areas of responsibility. For example, the Compensation Committee considers the risks to our business associated with our compensation policies and practices, with respect to both executive compensation and compensation generally. Our Board believes that our compensation programs are designed such that they will not incentivize unnecessary risk taking. The base salary component of our compensation program is a fixed amount and does not depend on performance. Payout levels under our cash incentive program are capped and payout opportunities may be achieved on a straight-line interpolation basis between threshold and target levels, and between the target and maximum levels. In addition, non-GAAP performance metrics are used in our cash incentive program to align achievement with our business strategy. Our equity awards are limited by the terms of our equity plans to a fixed maximum amount specified in the plan, and are subject to vesting to align the long-term interests of our executive officers with those of our stockholders. Our Board adopted a clawback policy to provide for the recoupment of certain executive compensation in the event of an accounting restatement resulting from the Company's material noncompliance with financial reporting requirements under the federal securities laws. See "*Executive Compensation—Compensation Discussion and Analysis—Clawback Policy*" contained elsewhere in this Proxy Statement.

Director Orientation and Continuing Education

Our Nominating and Corporate Governance Committee oversees the orientation process for new members of our Board to ensure that they are familiar with the Company's operations, financial matters, corporate governance practices and other key policies and practices through the preparation and review of background material and management meetings as appropriate. In addition, our Nominating and Corporate Governance Committee seeks to identify and encourage training and continuing education opportunities for all directors in order to improve both our Board and its committees' performance. Senior management will assist in identifying and advising our directors about opportunities for continuing education, including conferences provided by independent third parties. In furtherance of these efforts, in 2018 the Company enrolled each of its directors with a full Board membership in the National Association of Corporate Directors (NACD), which provides corporate governance resources, education, information, and research on leading board practices.

Code of Business Conduct and Ethics

We have adopted a Code of Business Conduct and Ethics that applies to all of our directors, officers and employees. We will provide a copy of our Code of Business Conduct and Ethics without charge to any person upon written request made to our Secretary at MagnaChip Semiconductor Corporation, c/o MagnaChip Semiconductor, Inc., 60 South Market Street, Suite 750, San Jose, CA 95113. Our Code of Business Conduct and Ethics is also available on our website at *www.magnachip.com*. We will disclose any waivers or amendments to the provisions of our Code of Business Conduct and Ethics on our website.

Report of the Audit Committee

The Audit Committee has reviewed and discussed with our management and Samil PricewaterhouseCoopers, our independent registered public accounting firm, our audited financial statements contained in our Annual Report to Stockholders for the year ended December 31, 2018. The Audit Committee has also discussed with our independent registered public accounting firm the matters required to be discussed under Public Company Accounting Oversight Board standards.

The Audit Committee has received and reviewed the written disclosures and the letter from Samil PricewaterhouseCoopers required by applicable requirements of the Public Company Accounting Oversight Board regarding Samil PricewaterhouseCoopers's communications with the Audit Committee concerning independence, and has discussed with Samil PricewaterhouseCoopers its independence.

Based on the review and discussions referred to above, the Audit Committee recommended to the Board (and the Board subsequently approved the recommendation) that the audited financial statements be included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018 filed with the SEC on February 22, 2019.

Audit Committee:

Melvin L. Keating, Chair
Gary Tanner
Nader Tavakoli

Communications with Directors

A stockholder or other interested party who wishes to communicate directly with the Board, a committee of the Board, the non-management or independent directors as a group, or with the Chairman or any other individual director, regarding matters related to the Company should send the communication to:

Board of Directors
or Chairman, individual director, committee or group of directors
MagnaChip Semiconductor Corporation
c/o MagnaChip Semiconductor, Inc.
Corporate Secretary
60 South Market Street, Suite 750
San Jose, CA 95113
Facsimile: (408) 625-5990

We will forward all stockholder and other interested party correspondence about the Company to the Board, a committee of the Board, the non-management or independent directors as a group, or an individual director, as appropriate. Please note that we will not forward communications that are spam, junk mail or mass mailings, resumes and other forms of job inquiries, surveys and business solicitations or advertisements.

2018 Director Compensation

Each of our non-employee directors was eligible to earn a quarterly cash retainer, additional fees based on committee service and equity awards.

Cash Compensation

Our non-employee directors were eligible to receive the following types of cash compensation for their services on the Board.

- Quarterly Board Service Retainer (all non-employee directors): $18,750
- Quarterly Chair Service Fees:
    - Chairman of the Board: $18,750
    - Chair of our Audit Committee: $6,250
    - Chair of our Compensation Committee: $3,750
    - Chair of our Nominating and Corporate Governance Committee: $2,500
    - Chair of our Risk Committee: $2,500
- Quarterly Committee Member (non-Chair) Service Fee:
    - Audit Committee: $3,750
    - Compensation Committee: $2,500
    - Nominating and Corporate Governance Committee: $1,250
    - Risk Committee: $1,250.

Our director compensation policy also provides that the Lead Director of the Board, if any, would receive an additional fee of $11,250 per quarter. No Lead Director was appointed for 2018. Our non-employee directors also receive certain fees for attending meetings of the Board throughout 2018, the standing committees on which they serve and certain ad hoc committees on which they serve, including a fee of $10,000 for each on-site visit to the Company's Korean headquarters made by a member of the Advisory Committee of the Board, until the Advisory Committee of the Board was dissolved in November 2018. Our non-employee directors also received a fee of $5,000 for each Advisory Committee meeting such member attended or for each full-day working session (or reasonable equivalent) such member engaged in during 2018, provided that such fees excluded any meetings or working sessions that constituted the whole or a part of an Advisory Committee visit to the Company's Korean subsidiary referenced above.

Equity Compensation

In 2018, our non-employee directors were also eligible to receive the following types of equity awards:

- *Annual Equity Awards*: Each non-employee director is eligible to receive a restricted stock unit award ("RSU") having a grant date fair value equal to $165,000. In addition, each non-employee director is eligible to receive a RSU award having a grant date fair value equal to $20,000 for such director's service as the chair of the Company's Audit Committee, Compensation Committee, Nominating and Corporate Governance Committee or Risk Committee; and a RSU award having a grant date fair value equal to $10,000 for such director's service as a member of the Company's Audit Committee, Compensation Committee, Nominating and Corporate Governance Committee or Risk Committee. The RSU vests in full on the earlier of (x) the first anniversary of grant and (y) the meeting date of the Annual Meeting of Stockholders that occurs in the year following the year the RSU is granted, with such grants being made on the earlier of (A) the meeting date of the Company's Annual Meeting of Stockholders for such year and (B) August 31 of such year.
- *Initial Equity Awards*: If a non-employee director's initial appointment to the Board or a Board committee occurs other than at an Annual Meeting of Stockholders of the Company, such director will be granted, an RSU having an aggregate grant date fair value equal to (x) the applicable grant date fair value amount for applicable Board or committee membership multiplied by (y) the quotient obtained by dividing the number of days elapsed from the date of initial appointment to the date of the Company's next Annual Meeting of Stockholders (or, if earlier, August 31 of such year), by 365, with such grants to vest in full on the date of the Company's next Annual Meeting of Stockholders (or, if earlier, August 31 of such year).

All non-employee director equity awards will be granted under the Company's equity incentive plan in effect at the time of such grants.

The following table sets forth the total compensation earned by our non-employee directors during the year ended December 31, 2018. Mr. YJ Kim, our Chief Executive Officer, does not earn any fees for his service on the Board.

Name	Fees Earned or Paid in Cash ($)(1)	Stock Awards ($)(2)(3)	All Other Compensation ($)(4)	Total ($)
Melvin Keating	186,500	195,002	—	381,502
Ilbok Lee	116,500	195,002	—	311,502
Camillo Martino	158,250	195,002	—	353,252
Gary Tanner	231,891	195,851	—	427,742
Nader Tavakoli	138,806	203,575	—	342,381
Randal Klein	74,000	202,422	95,000	371,422

(1) Consists of the amount of cash compensation earned in 2018 for Board service, committee service and meeting fees, as described in the table below.

Name	Board Retainer ($)	Chair Service Fees ($)	Committee Service Fees ($)	Meeting Fees ($)	Advisory Committee Fees ($)	Total ($)
Melvin Keating	82,500	25,000	5,000	19,000	55,000	186,500
Ilbok Lee	82,500	10,000	5,000	19,000	—	116,500
Camillo Martino	82,500	15,000	5,000	25,750	30,000	158,250
Gary Tanner	82,500	68,641	25,000	25,750	30,000	231,891
Nader Tavakoli	82,500	16,359	16,697	23,250	—	138,806
Randal Klein	45,000	—	10,000	19,000	—	74,000

An amount of $2,250 in cash Board retainer fees was not paid to each of Mr. Tanner, Mr. Martino and Mr. Tavakoli in the first quarter of 2018 due to the overpayment of $2,250 in cash Board retainer fees to each such director in the fourth quarter of 2017.

(2) Represents the aggregate grant date fair value of RSUs granted in 2018. For Mr. Klein, the fair value of August 3, 2018 was used as the vesting of his granted RSUs was accelerated upon his resignation on August 3, 2018.

(3) As of December 31, 2018, the number of shares of our common stock underlying outstanding stock options and RSUs held by our non-employee directors who served during 2018 were as follows:

Name	RSUs (#)	Stock Options (#)
Melvin Keating	31,405	49,737
Ilbok Lee	37,719	204,593
Camillo Martino	31,405	49,737
Gary Tanner	38,406	93,117
Nader Tavakoli	38,629	212,793
Randal Klein	—	11,700

As of December 31, 2018, the following number of RSUs included in the table above were vested but not yet settled under the terms of the applicable RSU agreements: Mr. Keating—13,916 RSUs; Dr. Lee—20,230 RSUs; Mr. Martino—13,916 RSUs; Mr. Tanner—20,230 RSUs; and Mr. Tavakoli—20,230 RSUs. Please see the section entitled “Security Ownership of Certain Beneficial Owners and Management” for additional detail regarding all shares of common stock beneficially owned by our non-employee directors.

(4) Consists of a cash separation payment paid to Mr. Klein in connection with his resignation from the Board on August 3, 2018.

Compensation Committee Interlocks and Insider Participation

None of the members of the Compensation Committee has been an officer or employee of our Company during the last fiscal year. During 2018, decisions regarding executive officer compensation were made by our Compensation Committee. Mr. YJ Kim, our Chief Executive Officer, participated in deliberations of our Compensation Committee regarding the determination of compensation of our executive officers other than himself for 2018 and prior periods. None of our executive officers currently serves, or in the past has served, as a member of the board of directors or the compensation committee of another entity that has one or more executive officers serving on our Board.

EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

Introduction

This Compensation Discussion and Analysis, or "CD&A," describes and analyzes our executive compensation program for the following MagnaChip executive officers who served in 2018 (collectively, our "named executive officers"):

- Young-Joon Kim, our Chief Executive Officer;
- Jonathan Kim, our Chief Financial Officer, Executive Vice President and Chief Accounting Officer;
- Theodore Kim, our Chief Compliance Officer, Executive Vice President, General Counsel and Secretary;
- Tae Jong Lee, our former Executive Vice President and General Manager, Foundry Services Group; and
- Woung Moo Lee, our Executive Vice President and General Manager, Standard Products Group.

Tae Jong Lee resigned as our Executive Vice President and General Manager of our Foundry Services Group on January 9, 2019.

Executive Summary

The Compensation Committee of our Board (the "Committee") has the primary responsibility for developing and maintaining a compensation program for our senior management, including our named executive officers. The Committee believes that our executive compensation program should play a key role in our operating and financial success. The Committee also strives to design and create compensation programs that balance the competitiveness of the compensation program while holding executives accountable for our long term strategy and values. In light of our unique situation in that all of our senior executives live in Korea, the Committee believes that our ability to retain executive talent is critical to our long-term success. The Committee believes that it is important to maintain compensation programs that include strong stock ownership elements and performance-focused equity awards.

Compensation Decisions

Throughout 2018, the Committee conducted a fresh and holistic review of our existing compensation arrangements for our Chief Executive Officer and other executive officers. The Committee believes that ongoing evaluations are necessary to ensure that our compensation program for our named executive officers is aligned with our compensation philosophy and our shareholders.

During this review, the Committee worked with its outside counsel and its compensation advisor to develop a comprehensive executive compensation scheme that would further align the interests of our executive officers with our stockholders and incentivize achievement of short-term operational goals as well as long-term value creation. The Committee's review included a thorough examination and comparison of our equity compensation practices, as well as our Chief Executive Officer's and certain of our other named executive officers' employment agreements and severance arrangements, to market practices in our industry.

New Employment Agreements with certain of our Named Executive Officers

In connection with the Committee's review of our existing arrangements, in 2018 we entered into a new employment agreement with YJ Kim, our Chief Executive Officer (the "New YJ Kim Agreement"), Theodore Kim, our Chief Compliance Officer and General Counsel (the "New T. Kim Agreement"), and Woung Moo Lee, General Manager of our Standard Products Group (the "New WM Lee Agreement," and together with the New YJ Kim Agreement and the New T. Kim Agreement, the "New Executive Agreements").

The New Executive Agreements reflect the following changes to Mr. YJ Kim's, Mr. T. Kim's and Mr. WM Lee's respective prior arrangements to bring each within market practices:

- Removed provision providing for so-called "single-trigger vesting" of all outstanding equity awards to allow flexibility with respect to future grants (and introduced so-called "double-trigger vesting" of new time-based grants);
- Removed post-termination continuation of certain perquisites;
- Removed executive-friendly legal fees provision;
- Removed certain carveouts and qualifiers to "cause" definition;
- Reduced non-"change in control" severance multiples;
- Reduced post-termination expatriate benefit continuation periods;
- Clarified terms of expatriate benefits, as applicable, in order reflect current entitlements; and
- Introduced performance-based equity awards, resulting in a material increase in "at-risk" pay.

Introduction of Performance Based Equity Program

Historically, the Company's equity awards were in the form of service-based stock options and RSUs. Consistent with the Committee's desire to provide compensation that is largely "at risk" while still competitive with our peers with whom we compete for talent, our redesigned equity compensation program for 2018 includes performance-based restricted stock units ("PSUs"). The Committee believes that introduction of PSUs to our compensation program is consistent with, explicitly linked to, and supports our strategic objective of enhancing shareholder value.

The New Executive Agreements contemplate the grant of PSUs that are subject to the achievement of annual goals relating to revenue, adjusted EBITDA and gross profit (collectively, the "AOP PSUs") and PSUs that are subject to vesting based on three-year total shareholder return ("TSR") relative to the S&P Semiconductor Index (the "TSR PSUs"). In structuring the relative TSR calculation and selecting the index, the Committee wanted to compare our stock price performance to that of a large, steady-state sampling of semiconductor companies on a basis designed to eliminate any short-term aberrations in stock price at the start or the end of the performance period. The financial performance goals established by the Committee for the AOP PSUs are based on our internal budget and/or our annual operating plan, which use non-GAAP (generally accepted accounting principles) measures that our Board and executive officers find useful in managing our business. The Committee believes that these elements create a well-diversified set of performance goals, including a focus on revenue as our key growth driver, profitability, and cash generation metric.

In order for any PSUs to vest, the performance must meet or exceed a threshold level performance target during the applicable performance period.

By way of illustration, Mr. YJ Kim's "performance-based" pay as a percentage of total target compensation (consisting of base salary, short-term cash incentives and equity awards) for 2016 was approximately 43%. As a result of our implementation of the foregoing program, in 2018, Mr. YJ Kim's "performance-based" pay as a percentage of total target compensation (assuming a share price of $8.90 and consisting of base salary, short-term cash incentives, and equity awards) will be approximately 53%.

Given our desire to continue the momentum of our 2017 business strategies, while maintaining our ability to adapt to changing conditions in our industry, the Committee determined that it was appropriate to use revenue, gross profit and adjusted EBITDA for the 2018 AOP PSUs as well as our short-term cash incentive program. In future years, the Committee may reconsider the appropriate balance between the AOP PSUs and the TSR PSUs.

The general terms of the grants contemplated by our redesigned 2018 executive compensation program are summarized below:

Service-Based RSUs	AOP PSUs	TSR PSUs
• Vest over three years in specified tranches, subject to executive's continued employment through each applicable vesting date.	• Annual grants with one-year performance period. • Vesting is based on achievement of performance goals related to annual operating plan, with specific performance goals established by the Committee annually. • For 2018, goals are related to revenue, adjusted EBITDA and gross profit metrics.	• Annual grants with three-year performance period. • Cliff-vesting at the end of the three-year performance period. • Vesting is based on three-year TSR of the Company relative to other entities in the S&P Semiconductor Index, determined by the percentile rank of the Company's TSR relative to the TSR of each other entity in such index.

Compensation Philosophy and Objectives

The Committee has overall responsibility for administering our compensation programs for our named executive officers. The Committee's responsibilities consist of evaluating, approving and monitoring our named executive officer and director compensation plans, policies and programs, as well as each of our equity-based compensation plans and policies.

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

- We maintain our ability to attract and retain superior executives in critical positions;
- our executives are incentivized and rewarded for corporate growth, achievement of long-term corporate objectives and individual performance that meets or exceeds our expectations without encouraging unnecessary risk-taking; and
- compensation provided to critical executives remains competitive relative to the compensation paid to similarly situated executives of companies in the semiconductor industry.

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

The information set forth below in this Compensation Discussion and Analysis describes the Committee's historical approach in realizing the general philosophy described above.

Say on Pay Vote and Stockholder Input

The Committee has responsibilities to ensure that the compensation paid to our executive officers aligns with the interests of our stockholders and the Company's compensation philosophy. As such, the Committee considered the approval by advisory votes cast for the "Say on Pay" vote and its frequency relating to the compensation of our named executive officers since the Company's 2018 Annual Meeting. At the 2018 Annual

Meeting, approximately 92% of the stockholders approved the compensation of the Company's named executive officers as disclosed in the Company's 2018 proxy materials and "1 Year" for the frequency of future advisory votes received the most votes. After carefully reviewing and considering of the advisory votes of stockholders, the Committee determined that the Company's executive compensation elements continued to be appropriate and an advisory vote on the compensation of the Company's named executive officers on an annual basis would be the most meaningful for the Board and the Committee itself, and best serve the interests of the Company and its stockholders. Therefore, the Company did not make any changes to its executive compensation arrangements as a direct result of the 2018 Say on Pay vote.

Timing of Compensation Decisions

Generally, at the end of each annual evaluation period, our Chief Executive Officer reviews the performance of the other executive officers and presents his conclusions and recommendations to the Committee. At that time and throughout the year, the Committee also evaluates the performance of our Chief Executive Officer, which is measured in substantial part against our consolidated financial performance. In the first quarter of our fiscal year, the Committee typically establishes the elements of our short-term cash incentive plan for the upcoming year. With respect to newly hired employees, our practice is typically to approve equity grants at the first meeting of the Committee following such employee's hire date. We do not have any program, plan or practice to time equity award grants in coordination with the release of material non-public information. From time to time, additional equity awards may be granted to executive officers during the fiscal year.

Role of Executive Officers in Compensation Decisions

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

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

In addition to the annual reviews, the Committee also typically considers compensation changes upon a named executive officer's promotion or other change in job responsibility.

Role of Compensation Consultant

The Committee engages an external compensation consultant to assist it by providing information, analysis and other advice relating to our executive compensation program and the decisions resulting from its annual executive compensation review. For 2018, the Committee again retained Compensia Inc. ("Compensia"), a national compensation consulting firm, to serve as its compensation consultant. This compensation consultant serves at the discretion of the Committee.

As advisor to the Committee during 2018, Compensia:

- provided research, analyses and design expertise in developing executive and incentive compensation programs, including equity awards; and
- provided general advice to the Committee with respect to compensation decisions pertaining to the Chief Executive Officer and senior executives.

In 2018, Compensia did not provide any services to us other than the consulting services to the Committee. The Committee regularly reviews the objectivity and independence of the advice provided by its compensation consultant on executive compensation. In 2018, the Committee considered the six specific independence factors adopted by the SEC and reflected in the NYSE listing standards and determined that the work performed by Compensia did not raise any conflicts of interest.

Elements of Compensation

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

Element	Purpose
Annual base salary	Provides a guaranteed element of an employee's annual cash compensation (i.e., a portion not at risk due to market fluctuations)
Short-term cash incentives	Incentivizes achievement of optimal annual financial, operational and other performance
Long-term equity incentives; and	Aligns interests with interests of our stockholders by increasing stock ownership, incentivizing increases in stockholder value and strengthening retention
Expatriate and other executive benefits.	Helps us to remain competitive with peer practices in the Korean market, as well as retain superior talent

Our executives also participate in a health and welfare benefits package that is generally available to all of our employees and are each party to an employment or severance agreement that provides for limited post-employment or change in control benefits.

Determination of Amount of Each Element of Compensation

General Background

The Committee seeks to establish a total cash compensation package for our named executive officers that is competitive with the compensation for similarly situated executives in our compensation peer group, subject to adjustments based on each executive's experience and performance. Based on our review of industry-specific survey data and the professional and market experience of our Committee members, we measure total cash compensation for our named executive officers against cash compensation paid to executives at similarly situated companies which we have determined to be in our select peer group. Base salaries for our named executive officers are then set at competitive levels as compared to similarly situated executives in the select peer group. Short-term cash incentives are put in place to provide for opportunities that provide for competitive levels of cash compensation as compared to our select peer group if, and depending upon the extent to which, our performance and that of our named executive officers exceeds expectations and the goals established by the Committee for the applicable year.

Sources of Market Data

For purposes of comparing our executive compensation against the competitive market, the Committee reviews and considers the compensation levels and practices of a group of comparable technology companies. The companies in this compensation peer group were selected on the basis of their similarity to us in size, industry focus and geographic location.

In April 2017, with the assistance of Compensia, the Committee developed our compensation peer group based on U.S.-based semiconductor companies. We focused on U.S.-based semiconductor companies because our highest ranking executives are U.S. expatriates who have opportunities to work with U.S.-based semiconductor companies. The companies in this compensation peer group were selected on the basis of their similarity to us, based on the following criteria:

- industry—semiconductors;
- similar revenue size—~0.5x to ~2.0x our last four fiscal quarter revenue of approximately $688 million (approximately $345 million to approximately $1.4 billion);
- executive positions similar in breadth, complexity and/or scope of responsibility; and
- competitors for executive talent.

The Committee approved the use of the market data from the following peer group (which was established in 2017 and has not been changed since) for our 2018 executive compensation market assessment:

Alpha & Omega Semiconductor	IXYS	Power Integrations
Axcelis Technologies	Lattice Semiconductor	Semtech
Cohu	MaxLinear	Vishay Intertechnology
Diodes	NeoPhotonics	Xcerra
FARO Technologies	Novanta	

The Committee used the market data from this peer group as a reference point in its 2018 executive compensation process.

The Committee reviews our compensation peer group periodically prior to assessing executive compensation and makes adjustments to its composition, taking into account changes in both our business and the businesses of the companies in the peer group.

The Committee typically makes annual determinations regarding cash incentive compensation based on our annual operating plan, which is generally adopted in the December preceding each fiscal year. The determination takes into account our expected performance in the coming fiscal year. The Committee generally makes all equity compensation decisions for our officers based on existing compensation arrangements for other executives at our Company with the same level of responsibility and based on a review of our select peer group and market data provided by our compensation consultant with a view to maintaining internal consistency and parity. The Committee does not target a specific percentile within our peer group with respect to cash or equity-based compensation.

Equity awards are not tied to base salary or cash incentive amounts and will constitute lesser or greater proportions of total compensation depending on market practices and the Committee’s determination of target grant values. The Committee, relying on the professional and market experience of our Committee members, as well as information provided by our compensation consultant, generally seeks to set equity awards at competitive levels based on both U.S. and Korean market practices and taking into account our equity plan share pool and projected dilution of our shares outstanding.

The Committee does not apply a formula or assign relative weight in making its determination. Instead, it makes a subjective determination after considering all information collectively.

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

Annual Base Salary

The Committee seeks to set the base salaries of our named executive officers at competitive levels as compared to similarly situated executives in our select peer group, but also takes into account the named executive officer’s skill set and the value of that skill set. The Committee makes a subjective decision regarding any changes in base salary based on these factors and the data from our select peer group. The Committee does not systematically assign weights to any of the factors it considers, and may, in its discretion, ignore any factors or deem any one factor to have greater importance for a particular executive officer. Base salary adjustments, if applicable, generally take effect in the middle of our fiscal year. None of our named executive officers received a base salary increase in 2018.

Executive	2018 Base Salary
Young-Joon Kim	$557,396
Jonathan Kim	$350,000
Theodore Kim	$330,000
Woung Moo Lee	$318,303
Tae Jong Lee	$318,303

Short-Term Cash Incentives

Short-term cash incentives are typically designed as a percentage of base salary and may be awarded based on individual performance or our achievement of the annual, long-term and strategic quantitative goals set by the Board or the Committee. In 2018, we provided short-term cash incentive opportunities to encourage our named executive officers to achieve certain short-term corporate performance goals. The 2018 target bonus amounts for each named executive officer (the "Target Bonus"), as a percentage of base salary, are set forth below. The maximum payout level for each named executive officer was 150% of his Target Bonus.

Named Executive Officer	2018 Target Bonus (% of Base Salary)	2018 Target Bonus ($)
Young-Joon Kim	100%	$557,396
Jonathan Kim	75%	$262,500
Theodore Kim	75%	$247,500
Woung Moo Lee	60%	$190,982
Tae Jong Lee	50%	$159,152

Payouts under our 2018 short-term incentive program were based on the achievement of three corporate financial performance goals—gross profit, revenue, and adjusted EBITDA—based on the levels of achievement and weightings described in the table below, within the period from Q2 to the end of 2018. Achievement at or above the maximum level of achievement for the each performance goal would result in a maximum payout of 150% of the portion of the named executive officer's Target Bonus attributable to that performance goal, while achievement below the threshold level of achievement for the each performance goal would result in no payout for the portion of the named executive officer's Target Bonus attributable to that performance goal. For performance within the maximum and threshold range, the percentage achievement would be determined based on a linear interpolation. Even though the named executive officers would have otherwise been entitled to receive a payout based on actual achievement against the performance goals in 2018, the Board, as part of its review of our existing compensation arrangements for our named executive officers in February 2019, exercised its discretion (as described below) to reduce the amounts payable to the named executive officers under the short-term incentive program to zero, given the severity of the Company's 2018 financial performance.

Performance Goal	Goal Weighting	Threshold (50% Payout)	Target (100% Payout)	Maximum (150% Payout)	2018 Achievement	Performance Payout
Gross Profit (as % of revenue)	33.3%	27.5%	28.5%	31.6%	26.2%	0%
Revenue (in millions)	33.3%	$ 580	$ 596	$ 622	$585.1	22%
Adjusted EBITDA (in millions)(1)	33.3%	$68.7	$80.8	$92.9	$ 68.8	16.8%

(1) For purposes of our 2018 short-term cash incentive program, adjusted EBITDA is equal to our GAAP net income (loss) before interest expense, net, income tax expenses (benefits), depreciation and amortization,

adjusted to exclude (i) restructuring and other gain, net, (ii) early termination charges, (iii) equity-based compensation expense, (iv) foreign currency loss (gain), net, (v) derivative valuation loss (gain), net, (vi) restatement related expenses (gain), (vii) secondary offering expense, (viii) loss on early extinguishment of long-term borrowings, net and (ix) other indemnification costs and reimbursement.

In February 2019, the Board determined the levels of achievement of the gross profit, revenue and adjusted EBITDA performance goals as reflected in the table above, but also determined that given the severity of the Company's financial performance in 2018, no payment of cash incentives would be made to the named executive officers, who would otherwise have been entitled to receive a payout based on actual achievement against the performance goals.

Proxy

Long-Term Equity Incentives

Historically, our named executive officers have received a mix of stock options and service-based RSUs each year in order to help us achieve our retention objectives and further align the interests of our named executive officers with those of our stockholders.

As described in *Introduction of Performance Based Equity Program* above, in 2018 we granted a mix of performance- based restricted stock units and service-based restricted stock units to three of our Named Executive Officers in connection with their entry into the New Executive Agreements. The 2018 service-based restricted stock unit grants to these individuals vest in specified tranches over three years based on the executives' continued employment on the applicable vesting dates. We did not make equity grants in 2018 to our Executive Vice President and General Manager of Foundry Services Group and to our Executive Vice President and Chief Financial Officer who each elected to retain their prior compensation arrangements in lieu of a new comprehensive compensation package offered by the Company.

The below tables summarize the RSUs, AOP PSUs, and TSR PSUs granted to each of Messrs. YJ Kim, T Kim and WM Lee in 2018, as well as the performance results with respect to the 2018 AOP PSU grants and the actual payout thereof.

			RSUs	
Name	**Grant date**	**FV of grant date**	**RSUs Granted**	**Aggregate fair value of grant date ($)**
Young-Joon Kim	4/30/2018	9.35	112,118	1,048,303
Theodore Kim	10/22/2018	8.96	30,000	268,800
Woung Moo Lee	10/22/2018	8.96	35,000	313,600

			AOP PSUs		
			Threshold	**Target**	**Maximum**
Name	**Grant date**	**FV of grant date ($)**	**Shares**	**Shares**	**Shares**
Young-Joon Kim	4/30/2018	9.35	27,860	55,720	65,100
Theodore Kim	10/22/2018	8.96	4,000	8,000	9,320
Woung Moo Lee	10/22/2018	8.96	4,667	9,333	10,873

			TSR PSUs			
			Threshold	**Target**	**Maximum**	**Supermaximum**
Name	**Grant date**	**FV of grant date ($)**	**Shares**	**Shares**	**Shares**	**Shares**
Young-Joon Kim	4/30/2018	9.35	9,300	18,600	27,900	37,200
Theodore Kim	10/22/2018	8.96	3,000	6,000	9,000	12,000
Woung Moo Lee	10/22/2018	8.96	3,500	7,000	10,500	14,000

The vesting of AOP PSUs granted in 2018 was based on the achievement of three corporate financial performance goals—gross profit, revenue, and adjusted EBITDA—based on the levels of achievement and weightings described in the table below. Achievement at or above the maximum level of achievement for the each performance goal would result in a maximum payout of 116.83% of the portion of the named executive officer's target level award attributable to that performance goal, while achievement below the threshold level of achievement for the each performance goal would result in no payout for the portion of the named executive officer's target level award attributable to that performance goal. In March 2019, the Compensation Committee determined the levels of achievement of the gross profit, revenue and adjusted EBITDA performance goals as reflected in the table below and approved the vesting of AOP PSUs in the vest ratio of 50.6%, which resulted in the issuance of 28,170 shares of common stock to Mr. YJ Kim, 4,044 shares of common stock to Mr. T. Kim and 4,718 shares of common stock to Mr. WM Lee.

Performance Goal	Goal Weighting	Threshold	Target	Maximum	2018 Achievement	Weighted Vesting Score	Total Vest Ratio
Gross Margin (as % of revenue)	33.3%	27.0%	28.0%	31.0%	26.4%	0.0%	
Adjusted EBITDA (in millions)	33.3%	$79.1	$93.1	$107.1	$ 84.3	22.9%	50.6%
Revenue (in millions)	33.3%	$ 737	$ 758	$ 790	$750.9	27.7%	

The performance goal of TSR PSUs is the three-year TSR relative to the S&P Semiconductor Index. In structuring the relative TSR calculation and selecting the index, the Committee wanted to compare our stock price performance to that of a large, steady-state sampling of semiconductor companies on a basis designed to eliminate any short-term aberrations in stock price at the start or the end of the performance period.

Subject to continued employment, in each of 2019 and 2020, the Board has committed to grant AOP PSUs or TSR PSUs to certain of our named executive officers and to establish performance goals for such grants for 2019 and 2020, respectively. The amount and type of PSUs that the Board has committed to grant are as follows:

		AOP PSUs		
Name	Grant date	Threshold Shares	Target Shares	Maximum Shares
Young-Joon Kim	2019	27,860	55,720	83,580
	2020	33,880	67,760	101,640
Theodore Kim	2019	4,000	8,000	12,000
	2020	4,000	8,000	12,000
Woung Moo Lee	2019	4,667	9,333	14,000
	2020	4,667	9,333	14,000

		TSR PSUs			
Name	Grant date	Threshold Shares	Target Shares	Maximum Shares	Supermaximum Shares
Young-Joon Kim	2019	11,940	23,880	35,820	47,760
	2020	14,520	29,040	43,560	58,080

Health and Welfare Benefits

Our named executive officers are eligible to participate in our employee benefit plans that are generally provided for all full-time employees, and on the same basis as all of our full-time employees in the country in which they are resident. These benefits include individual health insurance (medical, dental, and vision), group personal accident insurance and group business travel insurance.

Perquisites and Other Benefits

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

Mr. YJ Kim, Mr. J. Kim and Mr. T. Kim were expatriates during 2018, 2017 and 2016, and received expatriate benefits commensurate with market practice in Korea. The Committee determined the appropriate benefits for each expatriate in accordance with internal policies approved by our Board from time to time, which included housing allowances, relocation and repatriation allowances, insurance premiums, reimbursement for the use of a car, home leave flights, living expenses, children's tuition allowances, tax equalization payments and tax advisory services. As discussed in the Executive Summary, in 2018 the Committee made certain clarifying changes to Mr. YJ Kim's and Mr. T. Kim's applicable expatriate benefits to reflect their current entitlements.

In addition, Mr. TJ Lee was entitled to customary employee benefits as well as a monthly housing allowance of 3,600,000 Korean won.

Post-Employment Severance Benefits

As of December 31, 2018, each of our named executive officers was party to an employment or severance agreement that provides for certain payments upon his termination of employment and/or a change in control of the Company. Please see the section below entitled "Potential Payments Upon Termination or Change in Control" for further discussion of those benefits. We believe that the use of severance arrangements appropriately mitigates some of the risk that exists for executives working in our highly competitive industry and allows the executives to focus on our business objectives. As part of our 2018 review of our compensation programs and our entry into the New YJ Kim Agreement, New T. Kim Agreement and New WM Lee Agreement, we desired to provide market competitive severance arrangements to align the interests of the executives and shareholders if a transaction were to occur.

In addition, pursuant to the Employee Retirement Benefit Security Act, certain executive officers residing in Korea with one or more years of service are entitled to severance benefits upon the termination of their employment for any reason. For purposes of this section, we call this benefit "statutory severance." The base statutory severance is approximately one month of base salary per year of service. Each of our named executive officers accrued statutory severance in 2018.

Clawback Policy

In 2017, the Committee adopted a clawback policy that applies to incentive compensation approved, awarded or granted to our current and former executive officers, including our named executive officers, following the adoption of the policy. Under the clawback policy, if we are required to prepare an accounting restatement due to the Company's material noncompliance with any financial reporting requirement under U.S. federal securities laws and the Board determines that a covered executive officer has willfully committed an act of fraud, dishonesty or recklessness in the performance of his or her duties as an executive officer of the Company that contributed to the noncompliance, the Board may require reimbursement or forfeiture of any excess incentive compensation that is received by any covered executive officer during the three completed fiscal years preceding the date on which the Company is required to prepare such accounting restatement.

Tax and Accounting Considerations

The Committee considers the accounting impact of equity awards when designing compensation plans and arrangements for our executive officers and other employees. Chief among these is Financial Accounting Standards Board Accounting Standards Codification Topic 718 (“ASC 718”), the standard which governs the accounting treatment of stock-based compensation awards. However, accounting cost is just one factor considered when designing such compensation plans and arrangements for our executive officers and other employees.

COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis as set forth above under “Compensation Discussion and Analysis” with our management and, based on such review and discussion, has recommended to our Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

The foregoing report was submitted by the Compensation Committee and shall not be deemed to be “soliciting material” or to be “filed” with the SEC or subject to Regulation 14A promulgated by the SEC or Section 18 of the Exchange Act.

Members of the Committee:

Camillo Martino, Chair
Gary Tanner
Nader Tavakoli

Summary Compensation Table

The following table sets forth certain information concerning the compensation earned during the years ended December 31, 2018, 2017 and 2016, of our named executive officers:

Name and Principal Position	Year	Salary ($)(1)	Bonus ($)(2)	Option Awards ($)(3)	Stock Awards ($)(3)	Non-Equity Incentive Plan Compensation ($)(4)	Change in Pension Value and Non-qualified Deferred Compensation Earnings ($)(5)	All Other Compensation ($)	Total ($)
Young-Joon Kim	2018	557,976	—	—	1,743,195	—	51,491	592,399(6)	2,945,061
Chief Executive Officer	2017	556,531	36,283	—	—	226,920	37,193	818,518	1,675,445
	2016	557,396	—	65,651	130,646	324,917	45,662	535,786	1,660,058
Jonathan Kim	2018	350,444	—	—	—	—	31,744	470,237(7)	852,425
Chief Financial Officer,	2017	349,705	17,099	—	—	106,942	24,542	473,392	971,680
Executive Vice President and Chief Accounting Officer	2016	350,249	—	50,675	100,784	153,125	28,820	244,850	928,502
Theodore Kim	2018	330,418	—	—	394,240	—	30,240	242,175(8)	997,074
Chief Compliance Officer,	2017	329,722	16,122	—	—	100,831	22,588	259,896	729,159
Executive Vice President, General Counsel and Secretary	2016	330,234	—	37,488	74,655	144,375	27,113	177,503	791,368
Woung Moo Lee	2018	318,303	—	—	459,944	—	26,183	51,495(9)	855,924
Executive Vice President	2017	309,579	12,749	—	—	79,681	25,798	39,343	467,150
and General Manager, Standard Products Group	2016	292,302	—	37,488	74,655	103,902	36,024	35,236	579,607
Tae Jong Lee	2018	318,303	—	—	—	—	26,425	58,590(10)	403,317
Executive Vice President	2017	309,579	10,624	—	—	66,401	25,798	48,380	460,782
and General Manager, Foundry Services Group	2016	291,991	—	37,488	74,655	86,585	68,253	46,327	605,299

Note: A monthly average exchange rate was used to convert amounts in the above table that were originally paid in Korean won.

(1) The base salary amounts for Messrs. YJ Kim, J. Kim and T. Kim in this table differ from the contractual base salary amounts described in the section above subtitled "Compensation Discussion and Analysis—Annual Base Salary" due to fluctuation in the exchange rate between U.S. dollars and Korean won during the year. The growth in base salary amounts between 2017 and 2018 is also a result of fluctuation in the exchange rate between 2017 and 2018.

(2) Includes discretionary cash bonuses for 2017 approved by the Compensation Committee. See the section subtitled "Compensation Discussion and Analysis—Short-Term Cash Incentives" for further information.

(3) We granted RSUs and PSUs to our named executive officers during 2018. See the section subtitled "Compensation Discussion and Analysis—Long-Term Equity Incentives" for further information. The amounts reported in this column reflect the grant date fair value of all RSU and PSU awards determined in accordance with FASB ASC 718. The AOP PSUs and the TSR PSUs are reported here at the target performance level based on the probable outcome of such performance conditions. When calculated in maximum performance level, the amount shall be $2,004,808 for Mr. YJ Kim, $459,827 for Mr. T. Kim and $536,462 for Mr. WM Lee.

(4) See the section subtitled "Compensation Discussion and Analysis—Short-Term Cash Incentives" for a description of the short-term cash incentive amounts.

(5) Consists of statutory severance accrued during the years ended December 31, 2018, 2017 and 2016, as applicable. See the section below subtitled "Pension Benefits for the Fiscal Year Ended December 31, 2018" for a description of the statutory severance benefit.

(6) Includes the following personal benefits paid to Mr. YJ Kim for 2018: (a) $118,921, which is the aggregate amount of prepaid housing expenses for Mr. YJ Kim's housing lease in 2018; (b) $44,899 for reimbursement of tuition expenses for Mr. YJ Kim's children; (c) $58,412 for health insurance premiums; (d) $5,563 for accident insurance and business travel insurance premiums; (e) $27,000 for annual cash allowance (special allowance payments relating to the relocation of Mr. YJ Kim's family to the United States); (f) $14,556 for car and driver expense (including personal use of a car service provided by the Company); (g) $10,019 for tax consulting expense; (h) $13,665 for living expense, moving expense and other benefits; (i) $121,766 of reimbursement for the difference between the actual tax Mr. YJ Kim already paid and the hypothetical tax he had to pay for the fiscal year 2018; and (j) $177,599 for reimbursement of Korean tax.

(7) Includes the following personal benefits paid to Mr. J. Kim for 2018: (a) $35,207 for Mr. J. Kim's housing lease; (b) $30,506 for Mr. J. Kim's home leave flights; (c) $38,384 for health insurance premiums; (d) $1,735 for accident insurance and business travel insurance premiums; (e) $11,460 for car and driver expense (including personal use of a car service provided by the Company); (f) $14,267 for tax consulting expense; (g) $8,475 for living expense and other benefits; (h) $132,052 of reimbursement for the difference between the actual tax Mr. J. Kim already paid and the hypothetical tax he had to pay for the fiscal year 2018; and (i) $198,152 for reimbursement of Korean tax.

(8) Includes the following personal benefits paid to Mr. T. Kim for 2018: (a) $64,286, for Mr. T. Kim's housing lease; (b) $23,376 for Mr. T. Kim's home leave flights; (c) $28,910 for health insurance premiums; (d) $1,735 for accident insurance and business travel insurance premiums; (e) $9,276 for car and driver expense (including personal use of a car service provided by the Company); (f) $9,682 for tax consulting expense; (g) $9,517 for living expense and other benefits; (h) $34,112 of reimbursement for the difference between the actual tax Mr. T. Kim already paid and the hypothetical tax he had to pay for the fiscal year 2018; and (i) $61,281 for reimbursement of Korean tax.

(9) Includes the following personal benefits paid to Mr. WM Lee for 2018: (a) $11,900 for reimbursement of tuition expenses for Mr. WM Lee's children; (b) $21,297 for health insurance premiums; (c) $10,157 for personal use of a car service provided by the Company; and (d) $8,141 for other benefits.

(10) Includes the following personal benefits paid to Mr. TJ Lee for 2018: (a) $20,507 for health insurance premiums; (b) $25,100 for housing allowance; (c) $8,660 for personal use of a car service provided by the Company; and (d) $4,322 for other benefits.

Grants of Plan-Based Awards Table for Fiscal Year 2018

The following table sets forth information regarding grants of non-equity incentive plan awards made to our named executive officers during 2018. See the section subtitled "Compensation Discussion and Analysis—Long-Term Equity Incentives" for further information.

		Estimated future payouts under non-equity incentive plan awards ($)			Estimated future payouts under equity incentive plan awards (#)			All Other Stock Awards: Number of Shares of Stock or Units (#)(2)	Grant Date Fair Value of Stock and Option Awards ($)(6)
Name	**Grant Date**	**Threshold (1)**	**Target (1)**	**Maximum (1)**	**Threshold**	**Target**	**Maximum**		
Young-Joon Kim	4/30/2018	278,500	557,000	835,500				112,118	1,048,303
	4/30/2018(3)				27,860	55,720	65,100		520,982
	4/30/2018(4)				9,300	18,600	37,200(5)		173,910
Jonathan Kim	—	131,250	262,500	393,750				—	—
Theodore Kim	10/22/2018	123,750	247,500	371,250				30,000	268,800
	10/22/2018(3)				4,000	8,000	9,320		71,680
	10/22/2018(4)				3,000	6,000	12,000(5)		53,760
Woung Moo Lee	10/22/2018	95,455	190,909	286,364				35,000	313,600
	10/22/2018(3)				4,667	9,333	10,873		83,624
	10/22/2018(4)				3,500	7,000	14,000(5)		62,720
Tae Jong Lee	—	79,545	159,091	238,636				—	—

(1) Represents the short-term cash incentive opportunities awarded to our named executive officers, subject to the achievement of certain short-term corporate performance goals. Notwithstanding the amounts set forth in these columns, the Board determined no payment of cash incentives would be made to the each named executive officers for fiscal year 2018. See the section subtitled “Compensation Discussion and Analysis—Short-Term Cash Incentives” for further information.
(2) Represents the service-vesting RSUs granted during fiscal year 2018 to our named executive officers. Further information on the RSU awards can be found in the “Compensation Discussion & Analysis” section above.
(3) Represents the performance-based vesting AOP PSUs granted during fiscal year 2018 to our named executive officers. The Compensation Committee shall certify the actual amount earned for each Performance Goal for the Performance Period, within 60 days following the end of Performance Period. Upon such determinations, the applicable portion of the units determined by the Payout Percentage shall vest.
(4) Represents the performance-based vesting TSR PSUs granted during fiscal year 2018 to our named executive officers. The Compensation Committee shall certify the actual amount earned for each Performance Goal for the Performance Period, within 60 days following the end of Performance Period. Upon such determinations, the applicable portion of the units determined by the Payout Percentage shall vest.
(5) Represented in Supermaximum performance level. Note that TSR Payout Percentage shall be determined by four types of performances: Threshold, Target, Maximum and Supermaximum. Supermaximum equals the Percentile achieved by a Rank of one in the TSR Index and its Payout Percentage is 200%. The Payout Percentage is 150% for maximum performance.
(6) Represents the grant date fair value of each equity-based award as determined in accordance with FASB ASC 718. For the performance-based equity awards, the amounts are reported at target performance.

Severance Agreements with Our Named Executive Officers

In 2018, we maintained severance or employment agreements with each of our named executive officers that, among other benefits, provide for payments upon termination or a change in control. For more information about the terms of these agreements and benefits, see the section below entitled “Potential Payments Upon Termination or Change in Control”.

Equity Compensation Plans

For more information about the terms of our equity compensation plans, see the section below entitled “Equity Compensation Plan Summary”.

Outstanding Equity Awards at Fiscal Year End 2018

The following table sets forth all outstanding equity awards held by our named executive officers as of December 31, 2018. Please see the section below entitled "Potential Payments on Termination or Change-in-Control" for information regarding the impact of certain employment termination scenarios on outstanding equity awards.

	Option Awards				
Name	**Grant Date**	**Number of Securities Underlying Unexercised Options (#) Exercisable**	**Number of Securities Underlying Unexercised Options (#) Unexercisable**	**Option Exercise Price($)**	**Option Expiration Date**
Young-Joon Kim	5/6/2013	200,000(1)	—	15.96	5/6/2023
	6/9/2015	90,610(2)	—	7.64	6/9/2025
	3/11/2016	30,203(3)	15,102(3)	5.53	3/11/2026
Jonathan Kim	3/12/2014	12,500(4)	—	13.93	3/12/2024
	6/12/2014	12,500(4)	—	12.44	6/12/2024
	9/12/2014	12,500(4)	—	12.18	9/12/2024
	12/12/2014	12,500(4)	—	12.96	12/12/2024
	6/9/2015	69,940(2)	—	7.64	6/9/2025
	3/11/2016	23,313(3)	11,657(3)	5.53	3/11/2026
Theodore Kim	10/26/2013	50,000(5)	—	21.79	10/26/2023
	6/9/2015	51,740(2)	—	7.64	6/9/2025
	3/11/2016	17,247(3)	8,623(3)	5.53	3/11/2026
Woung Moo Lee	11/1/2013	50,000(6)	—	19.56	11/1/2023
	6/9/2015	43,940(2)	—	7.64	6/9/2025
	3/11/2016	17,247(3)	8,623(3)	5.53	3/11/2026
Tae Jong Lee	12/8/2009	49,000	—	5.88(8)	12/8/2019
	1/15/2012	30,000(7)	—	7.75	1/9/2021
	6/9/2015	43,940(2)	—	7.64	1/9/2021
	3/11/2016	17,247(3)	8,623(3)	5.53	1/9/2021

			Stock Awards		
Name	**Grant Date**	**Number of Shares or Units of Stock That Have not Vested (#)(9)**	**Market Value of Shares or Units of Stock That Have not Vested ($)(13)**	**Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)(14)**	**Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)(15)**
Young-Joon Kim	3/11/2016	7,875(10)	48,904		
	4/30/2018	44,100(11)	273,861	18,600	115,506
Jonathan Kim	3/11/2016	6,075(10)	37,726		—
Theodore Kim	3/11/2016	4,500(10)	27,945		
	10/22/2018	18,360(12)	114,016	6,000	37,260
Woung Moo Lee	3/11/2016	4,500(10)	27,945		
	10/22/2018	21,420(12)	133,018	7,000	43,470
Tae Jong Lee	3/11/2016	4,500(10)	27,945	—	—

(1) An installment of 34% of the shares of common stock subject to the options vested and became exercisable on May 6, 2014, an additional 9% of the options vest on the completion of the next period of three months, an additional 8% of the options vest upon the completion of each of the next three periods of three months, an additional 9% of the options vest upon the completion of the next period of three months, and an additional 8% of the options vest upon the completion of each of the next three periods of three months.
(2) An installment of 50% of the shares of common stock subject to the options vested and became exercisable on June 9, 2015, with the remaining 50% vesting in three equal annual installments on the first three anniversaries of June 9, 2015. Upon his termination of employment, Mr. TJ Lee's options remain outstanding until the earlier of the second anniversary of his termination date or the option's original expiration date.
(3) The shares of common stock subject to the options will vest and become exercisable in three equal annual installments on the first three anniversaries of March 11, 2016. Upon his termination of employment, Mr. TJ Lee's options remain outstanding until the earlier of the second anniversary of his termination date or the option's original expiration date.
(4) An installment of 34% of the shares of common stock subject to the options vested and became exercisable on March 12, 2015, an additional 9% of the options vest on the completion of the next period of three months, an additional 8% of the options vest upon the completion of each of the next three periods of three months, an additional 9% of the options vest upon the completion of the next period of three months, and an additional 8% of the options vest upon the completion of each of the next three periods of three months.
(5) An installment of 34% of the shares of common stock subject to the options vested and became exercisable on October 26, 2014, an additional 9% of the options vest on the completion of the next period of three months, an additional 8% of the options vest upon the completion of each of the next three periods of three months, an additional 9% of the options vest upon the completion of the next period of three months, and an additional 8% of the options vest upon the completion of each of the next three periods of three months.
(6) An installment of 34% of the shares of common stock subject to the options vested and became exercisable on November 1, 2014, an additional 9% of the options vest on the completion of the next period of three months, an additional 8% of the options vest upon the completion of each of the next three periods of three months, an additional 9% of the options vest upon the completion of the next period of three months, and an additional 8% of the options vest upon the completion of each of the next three periods of three months.
(7) An installment of 34% of the shares of common stock subject to the options vested and became exercisable on January 15, 2013, an additional 9% of the options vest on the completion of the next period of three months, an additional 8% of the options vest upon the completion of each of the next three periods of three months, an additional 9% of the options vest upon the completion of the next period of three months, and an additional 8% of the options vest upon the completion of each of the next three periods of three months. Upon his termination of employment, Mr. TJ Lee's options remain outstanding until the earlier of the second anniversary of his termination date or the option's original expiration date.
(8) The option exercise price at the time of grant was $1.16 per common unit, or $9.28 after giving effect to our corporate conversion from an LLC to a corporation in connection with our initial public offering in March 2011, which we refer to as our corporate conversion. On April 19, 2010, we made a distribution to our unitholders of $0.4254 per common unit, which resulted in the option exercise price being reduced to $0.7346 per common unit, or $5.88 after giving effect to the corporate conversion.
(9) Represents unvested service-vesting RSUs granted on June 9, 2015, March 11, 2016, and April 30, 2018 for Mr. YJ Kim and October 22, 2018 for Mr. WM Lee and Mr. T. Kim.
(10) The shares of common stock subject to the RSUs will vest and become exercisable in three equal annual installments on the first three anniversaries of March 11, 2016.
(11) An installment of 61% of the shares of common stock subject to the RSU vested, with the remaining 18% to vest in December 31, 2019 and 21% to vest in December 31, 2020.
(12) An installment of 39% of the shares of common stock subject to the RSU vested, with the remaining 31% to vest in December 31, 2019 and 30% to vest in December 31, 2020.
(13) Represents the market value of RSUs based on our closing per share price of $6.21 on December 31, 2018, the last trading day of 2018.

(14) Represents unvested TSR PSUs granted on April 30, 2018 for Mr. YJ Kim and October 22, 2018 for Mr. WM Lee and Mr. T. Kim in target performance level.
(15) Represents the market value of TSR PSUs in target performance level based on our closing per share price of $6.21 on December 31, 2018, the last trading day of 2018.

Option Exercises and Stock Vested

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)(4)
Young-Joon Kim	—	—	111,938(1)	1,013,071
Jonathan Kim	—	—	12,150(2)	128,790
Theodore Kim	—	—	24,684(3)	214,885
Woung Moo Lee	—	—	26,623(3)	227,340
Tae Jong Lee	—	—	8,325(2)	87,941

(1) Represents RSUs that vested on March 11, 2018, June 9, 2018, April 30, 2018 and December 31, 2018 and AOP PSUs that vested based on performance in 2018 and was paid on March 8, 2019.
(2) Represents RSUs that vested on March 11, 2018 and June 9, 2018
(3) Represents RSUs that vested on March 11, June 9, 2018, October 31, 2018 and December 31, 2018 and AOP PSUs that vested based on performance in 2018 and was paid on March 8, 2019.
(4) Represents the value of the RSUs and AOP PSUs as of the date of vesting, based on our closing per share price on each date of vesting.

Pension Benefits for the Fiscal Year Ended December 31, 2018

In addition to the severance benefits described above, pursuant to the Employee Retirement Benefit Security Act, certain executive officers residing in Korea with one or more years of service are entitled to severance benefits upon the termination of their employment for any reason. The base statutory severance accrues at the rate of approximately one month of base salary per year of service and is calculated on a monthly basis based upon the officer's salary for the prior three-month period. Accordingly, if the named executive officers in the following table had retired on the last day of our fiscal year ended December 31, 2018, they would have been entitled to the statutory severance payments described below. The accumulated amounts under the statutory severance scheme are paid in a lump sum upon the executive's retirement. Assuming no change in the applicable law, each of these executives will continue to accrue additional statutory severance benefits at the rate described above until his or her service with us terminates.

Name	Plan Name	Number of Years of Credited Service (#)	Present Value of Accumulated Benefit ($)(1)	Payments During the Last Fiscal Year
Young Joon Kim	Statutory Severance	6	265,828	—
Jonathan Kim	Statutory Severance	5	142,372	—
Theodore Kim	Statutory Severance	6	145,808	—
Woung Moo Lee	Statutory Severance	5	134,777	—
Tae Jong Lee	Statutory Severance	12	295,640	—

(1) The value reported in this column represents the accumulated amount of the benefit for each executive based on the formula described above of one month of base salary per year of credited service.

Nonqualified Deferred Compensation

We do not maintain any nonqualified deferred compensation plans.

Potential Payments Upon Termination or Change in Control

Our named executive officers are each party to an employment or severance agreement that provides for post-employment or change in control benefits. The terms "cause", "good reason", "disability" and "change in control" used below have the meanings given to them in the applicable CEO Agreement or Other Executive Agreement (each as defined below).

Employment Agreements

On April 26, 2018 the Company entered into a new employment agreement with Mr. YJ Kim that superseded his prior severance and employment agreements (the "CEO Agreement"). In October of 2018, the Company entered into similar arrangements with Mr. WM Lee and Mr. T. Kim that replaced their prior severance agreements and offer letters (the "Other Executive Agreements").

Under the CEO Agreement, Mr. YJ Kim is entitled to severance payments and benefits upon certain qualifying terminations of his employment with the Company. Upon termination of his employment by the Company without "cause" or his resignation for "good reason", in each case not in connection with a "change in control" (each, a "Non CIC Termination"), he is entitled to receive (i) 24 months of continued base salary (as then in effect or in effect prior to any diminution constituting "good reason") (the "Salary Payment"), (ii) a pro rata bonus based on actual performance (if such termination occurs after June 30 of the year of termination), (iii) a lump-sum payment equal to the cost of 12 months of Company-paid medical, dental and vision insurance premiums (the "Insurance Payment"), (iv) 90 days' continuation of his expatriate benefits, and (v) to the extent that he is eligible to receive such payments as part of the expatriate benefits, the repatriation allowance and expenses. Further Mr. YJ Kim will vest in full in all equity awards granted prior to January 1, 2018, and will vest in equity grants made on or after January 1, 2018 in accordance with the terms of the applicable award agreements.

If, during a period of time that (x) the Company is party to a definitive corporate transaction agreement the consummation of which would result in a "change in control" or (y) is within 18 months following a "change in control", Mr. YJ Kim's employment is terminated by the Company without "cause", by Mr. YJ Kim for "good reason" (each, a "CIC Termination"), or by reason of his death or "disability", then he will be entitled the severance payments described above, provided that (A) the Salary Payment shall be a lump sum payment equal to two times the sum of (1) his base salary (as then in effect or in effect prior to any diminution implicating "good reason") and (2) his annual bonus (as then in effect or in effect prior to any diminution implicating "good reason", but in no event greater than 100% of his base salary) and (B) the Insurance Payment will be in respect of 18 months rather than 12. Further Mr. YJ Kim will vest in full in all equity awards granted prior to January 1, 2018 and will vest in equity grants made on or after the January 1, 2018 in accordance with the terms of the applicable award agreements.

Mr. YJ Kim's right to receive any "change in control" or other severance payments provided in the CEO Agreement is subject to his execution of a release of claims against us and his compliance with certain restrictive covenants.

The Other Executive Agreements provide that the applicable executive will be entitled to severance payments and benefits upon certain qualifying terminations of his employment with the Company. In the event that the applicable executive incurs a Non CIC Termination, he will be entitled to (i) 12 months of continued base salary (as then in effect or in effect prior to any diminution constituting "good reason") (the "Other Executive Salary Payment"), (ii) a pro rata bonus based on actual performance (if such termination occurs after June 30 of the year of termination) (together with the Other Executive Salary Payment, the "Other Executive

Severance Payment”), (iii) full vesting of all equity awards granted prior to January 1, 2018 and vesting in equity grants made on or after the January 1, 2018 in accordance with the terms of the applicable award agreements. Further, Mr. T. Kim would receive a lump sum payment equal to the cost of 12 months of Company-paid medical, dental and vision insurance premiums, 90 days’ continuation of his expatriate benefits, and, to the extent that he is eligible to receive such payments as part of his expatriate benefits, a repatriation allowance in the amount of one month’s base salary and certain repatriation expenses as described in his agreement.

In the event that Mr. WM Lee or Mr. T. Kim incurs a CIC Termination, then the applicable executive will be entitled to the severance payments described above, provided that the Severance Payment instead will equal one and one-half times the executive’s base salary (as then in effect or in effect prior to any diminution implicating “good reason”); and provided further, that if the date of termination occurs after June 30th of the calendar year in which the date of termination occurs, Mr. T. Kim will also receive an amount equal to an additional month of base salary for each month that has passed since July 1st through the date of termination (rounding up for any partial months), which will be payable in a lump sum on the sixtieth (60th) day following the date of termination. Further, the applicable executive will vest in full in all equity awards granted prior to January 1, 2018 and will vest in equity grants made on or after the January 1, 2018 in accordance with the terms of the applicable award agreements.

The applicable executive’s rights to receive any “change in control” or other severance payments under the Other Executive Agreements is subject to the applicable executive’s execution of a release of claims against us and his compliance with certain restrictive covenants.

Severance Agreements

As of December 31, 2018, we were party to Severance Agreements with each of Mr. J. Kim and Mr. TJ Lee pursuant to which we would be obligated to make certain payments to the applicable named executive officer upon his termination without “cause” or for “good reason” (a “qualifying termination”) and in connection with a “change in control”. The terms “cause” and “good reason” used below have the meanings given to them in the applicable Severance Agreements. The definition of “change in control” under the Severance Agreements is the same as under our 2011 Equity Incentive Plan, except that a sale of assets representing at least 65% of our consolidated annual revenue or assets, or a sale of either of our Standard Products Group or foundry business lines, is a change in control for purposes of the Severance Agreement but not the 2011 Equity Incentive Plan.

In the event either executive incurs a qualifying termination other than during a period that is 3 months prior to, or 18 months following, a change in control, the named executive officer would be eligible to receive, in addition to accrued but unpaid salary, an amount equal to 100% of his then current base salary, payable during the 12-month period following termination of employment and full vesting of all outstanding and unvested equity awards (including, without limitation, stock options and RSUs), with any stock options remaining outstanding and exercisable for two years following such termination (or the expiration of the option, if earlier). In addition, Mr. J. Kim would be eligible to receive (i) a lump sum cash payment equal to his then current base salary; (ii) payment of any portion of health benefit premiums for 12 months following termination of employment that are in excess of the amount he would have paid if he had remained employed during such period; (iii) continued provision of expatriate benefits for 12 months following termination of employment; and (iv) a repatriation allowance and repatriation expenses in accordance with our expatriate benefit policy. Mr. TJ Lee will be eligible to receive continued housing payments, in each case, for 12 months following termination of employment.

If the applicable executive incurs a qualifying termination during the three months prior to or 18 months following a change in control, in addition to the benefits described in the preceding paragraph, Mr. J. Kim would also be eligible to receive an additional lump sum payment amount equal to his then current base salary and an additional 6 months of payments of health benefit premiums, and Mr. TJ Lee would be eligible to receive an additional payment equal to his then current base salary, payable for 12 months following termination of employment.

The Severance Agreements also provide that, in the event of a change in control, all outstanding and unvested equity awards (including, without limitation, stock options and RSUs) held by the named executive officer will become immediately vested and, in the case of options, exercisable, as of immediately prior to such change in control.

As a condition to the receipt of payments and benefits under the Severance Agreements, the named executive officer must comply with the terms of certain restrictive covenants, including a two-year post-termination non-competition covenant and perpetual non-disclosure and employee non-solicitation covenants.

The following tables present our estimate of the dollar value of the payments and benefits payable to our named executive officers upon the occurrence of certain terminations of their employment and upon a change in control, assuming that each such event occurred on December 31, 2018, and assuming a closing per share price of $6.21 on December 31, 2018, the last trading day of 2018. The disclosure in the following table does not include:

- any accrued benefits that were earned and payable as of December 31, 2018; or
- payments and benefits to the extent they are provided generally to all salaried employees and do not discriminate in scope, terms or operation in favor of the named executive officers.

Young-Joon Kim

	Cash Severance Payment ($)(1)	Value of Equity Award Acceleration ($)	Continuation of Benefits and Perquisites ($)(2)	Total ($)
Termination By the Company Without Cause / By Executive for Good Reason	1,114,792	115,330(4)	254,013(7)	1,484,136
Termination By the Company Without Cause / By Executive for Good Reason, In Connection With a Change in Control	2,229,584(3)	466,195(5)	283,219(8)	2,978,998
Termination By the Company for Cause / By Executive without Good Reason	—	—	—	—
Change in Control (without termination of employment)	—	466,195(6)	—	466,195

(1) Represents cash severance payments payable pursuant to the CEO Agreement (including a pro rata bonus based on actual performance). See "Potential Payments Upon Termination or Change in Control" for additional information.

(2) Represents continuation of benefits and perquisites pursuant to the CEO Agreement and our expatriate benefit policy. See "Potential Payments Upon Termination or Change in Control" and "—Compensation Discussion and Analysis—Perquisites and Other Benefits" for additional information. Calculated assuming benefits for the applicable period will have the same dollar value as corresponding 2018 benefits.

(3) Mr. YJ Kim would also receive such benefits upon a termination as a result of his death or disability that occurs in connection with a change in control.

(4) Represents the value of immediate vesting of all outstanding stock options and RSUs granted prior to January 1, 2018. Mr. YJ Kim would remain eligible to vest in 1/3 of his TSR PSUs based on actual performance. This column assumes vesting at the target performance level. See "Potential Payments Upon Termination or Change in Control" for additional information.

(5) Represents the value of immediate vesting of all outstanding stock options and RSUs granted prior to January 1, 2018 and immediate vesting of all time-vesting restricted stock units granted after January 1, 2018. Mr. YJ Kim would also vest in the TSR PSUs that remained eligible to vest determined based on actual performance at the time of the change of control. This column assumes vesting at the target performance level. See "Potential Payments Upon Termination or Change in Control" for additional information. Mr. YJ Kim would also receive accelerated vesting of his time-based RSUs upon his death or disability that occurs in connection with a change in control.

(6) Assumes that the Committee exercised its discretion to fully accelerate all equity awards in connection with the transaction under the 2011 Plan. Represents the value of immediate vesting of all outstanding stock options, RSUs and PSUs (assuming the PSUs vest at the target performance level).
(7) Includes the following continuation of benefits and perquisites for Mr. YJ Kim: (a) $29,323, which is housing expenses for Mr. YJ Kim's housing lease; (b) $11,071 for reimbursement of tuition expenses for Mr. YJ Kim's children; (c) $58,412 for health insurance premiums; (d) $46,450 for repatriation allowance; (e) $ 28,005 for repatriation expense; (f) $6,937 for living expense, tax consulting fee and car service provided by the Company; (g) $30,024 of reimbursement for the difference between the actual tax and the hypothetical tax he will pay for the applicable fiscal year; and (h) $43,792 for estimated reimbursement of Korean tax.
(8) Same as the total amount of Note (6) except $ 29,206 representing the employer cost of insurance premiums for an additional 6 months of insurance coverage. Mr. YJ Kim would also receive such benefits upon a termination as a result of his death or disability that occurs in connection with a change in control.

Jonathan Kim

	Cash Severance Payment ($)(1)	Value of Equity Award Acceleration ($)(2)	Continuation of Benefits and Perquisites ($)(3)	Total ($)
Termination By the Company Without Cause / By Executive for Good Reason	700,000	59,280	543,619(4)	1,302,899
Termination By the Company Without Cause / By Executive for Good Reason, In Connection With a Change in Control	1,050,000	59,280	562,811(5)	1,672,091
Termination By the Company for Cause / By Executive without Good Reason / Disability / Death	—			
Change in Control (without termination of employment)	—	59,280(3)		59,280

(1) Represents cash severance payments payable pursuant to the Severance Agreement. See "Potential Payments Upon Termination or Change in Control" for additional information.
(2) Represents the value of immediate vesting of all outstanding stock options and RSUs pursuant to the Severance Agreement. See "Potential Payments Upon Termination or Change in Control" for additional information.
(3) Represents continuation of benefits and perquisites pursuant to the Severance Agreement and our expatriate benefit policy. See "Potential Payments Upon Termination or Change in Control" and "Compensation Discussion and Analysis—Perquisites and Other Benefits" for additional information. Calculated assuming benefits for the applicable period will have the same dollar value as corresponding 2018 benefits.
(4) Includes the following continuation of benefits and perquisites for Mr. J. Kim: (a) $35,207, which is housing expenses for Mr. J. Kim's housing lease; (b) $30,506 for Mr. J. Kim's home leave flights; (c) $38,384 for health insurance premiums; (d) $29,167 for repatriation allowance; (e) $ 50,000 for repatriation expense; (f) $14,267 for tax consulting fee; (g) $11,460 for car service provided by the Company; (h) $4,425 for living expense; (i) $132,052 of estimated reimbursement for the difference between the actual tax and the hypothetical tax he will pay for the applicable fiscal year; and (j) $198,152 for estimated reimbursement of Korean tax.
(5) Same as the total amount of Note (4) except $19,192 of insurance premiums for extended 6 months of insurance coverage periods.

Theodore Kim

	Cash Severance Payment ($)(1)	Value of Equity Award Acceleration ($)	Continuation of Benefits and Perquisites ($)(2)	Total ($)
Termination By the Company Without Cause / By Executive for Good Reason	330,000	56,309(3)	157,517(6)	543,826
Termination By the Company Without Cause / By Executive for Good Reason, In Connection With a Change in Control	660,000	195,165(4)	157,517(6)	1,012,682
Termination By the Company for Cause / By Executive without Good Reason / Disability / Death	—			
Change in Control (without termination of employment)	—	195,165(5)		195,165

(1) Represents cash severance payments payable pursuant to the applicable Other Executive Agreement. See "Potential Payments Upon Termination or Change in Control" for additional information.

(2) Represents continuation of benefits and perquisites pursuant to the Severance Agreement and our expatriate benefit policy. See "Potential Payments Upon Termination or Change in Control" and "Compensation Discussion and Analysis—Perquisites and Other Benefits" for additional information. Calculated assuming benefits for the applicable period will have the same dollar value as corresponding 2018 benefits.

(3) Represents the value of immediate vesting of all outstanding stock options and RSUs granted prior to January 1, 2018. Mr. T. Kim would remain eligible to vest in 1/3 of his 2018 TSR PSUs based on actual performance. This column assumes vesting at the target performance level. See "Potential Payments Upon Termination or Change in Control" for additional information.

(4) Represents the value of immediate vesting of all outstanding stock options and RSUs granted prior to January 1, 2018 and immediate vesting of all time-vesting restricted stock units granted after January 1, 2018. Mr. T. Kim would also vest in the TSR PSUs that remained eligible to vest determined based on actual performance at the time of the change of control. This column assumes vesting at the target performance level. See "Potential Payments Upon Termination or Change in Control" for additional information.

(5) Represents the value of immediate vesting of all outstanding stock options, RSUs and PSUs (assuming the PSUs vest at the target performance level).

(6) Includes the following continuation of benefits and perquisites for Mr. T. Kim: (a) $15,851, which is housing expenses for Mr. T. Kim's housing lease; (b) $5,764 for Mr. T. Kim's home leave flights; (c) $28,910 for health insurance premiums (d) $ 27,500 for repatriation allowance; (e) $ 50,000 for repatriation expense; (f) $5,970 for other personal benefits (including personal use of a car service provided by the Company, living expenses and tax consulting fee); (g) $8,411 of estimated reimbursement for the difference between the actual tax and the hypothetical tax he will pay for the applicable fiscal year; and (h) $15,110 for estimated reimbursement of Korean tax.

Woung Moo Lee

	Cash Severance Payment ($)(1)	Value of Equity Award Acceleration ($)(2)	Continuation of Benefits and Perquisites ($)	Total ($)
Termination By the Company Without Cause / By Executive for Good Reason	318,303	58,383(2)	—	376,686
Termination By the Company Without Cause / By Executive for Good Reason, In Connection With a Change in Control	477,454	220,378(3)	—	697,832
Termination By the Company for Cause / By Executive without Good Reason / Disability / Death	—	—	—	
Change in Control (without termination of employment)	—	220,378(4)	—	220,378

(1) Represents cash severance payments payable pursuant to the applicable Other Executive Agreement. See "Potential Payments Upon Termination or Change in Control" for additional information.
(2) Represents the value of immediate vesting of all outstanding stock options and RSUs granted prior to January 1, 2018. Mr. WM Lee would remain eligible to vest in 1/3 of his TSR PSUs based on actual performance. This column assumes vesting at the target performance level. See "Potential Payments Upon Termination or Change in Control" for additional information.
(3) Represents the value of immediate vesting of all outstanding stock options and RSUs granted prior to January 1, 2018 and immediate vesting of all time-vesting restricted stock units granted after January 1, 2018. Mr. WM Lee would also vest in the TSR PSUs that remained eligible to vest determined based on actual performance at the time of the change of control. This column assumes vesting at the target performance level. See "Potential Payments Upon Termination or Change in Control" for additional information.
(4) Represents the value of immediate vesting of all outstanding stock options, RSUs and PSUs (assuming the PSUs vest at the target performance level).

Tae Jong Lee

	Cash Severance Payment ($)(1)	Value of Equity Award Acceleration ($)(2)	Continuation of Benefits and Perquisites ($)(3)	Total ($)
Termination By the Company Without Cause / By Executive for Good Reason	318,303	43,889	25,100(4)	387,292
Termination By the Company Without Cause / By Executive for Good Reason, In Connection With a Change in Control	636,606	43,889	25,100(5)	705,595
Termination By the Company for Cause / By Executive without Good Reason / Disability / Death				
Change in Control (without termination of employment)		43,889		43,889

(1) Represents cash severance payments payable pursuant to the Severance Agreement. See "Potential Payments Upon Termination or Change in Control" for additional information.
(2) Represents the value of immediate vesting of all outstanding stock options and RSUs pursuant to the Severance Agreement. See "Potential Payments Upon Termination or Change in Control" for additional information.

(3) Calculated assuming benefits for the applicable period will have the same dollar value as corresponding 2018 benefits.
(4) Represents housing expenses for Mr. TJ Lee's housing lease.
(5) Same as the amount of Note (4).

On January 9, 2019, Mr. TJ Lee entered into a separation agreement (the "Separation Agreement") with the Company and the Company's Korean subsidiary MagnaChip Semiconductor, Ltd. ("MSK"). The Separation Agreement provides for a separation payment of an aggregate of KRW 350,000,000 to be paid in two installments of KRW 175,000,000 each (provided that, if a change of control of the Company occurs within three months of the Resignation Date, the second installment will be KRW 525,000,000) with the first installment to be paid within 14 days of the Resignation Date and the second installment to be paid on the first anniversary of the Resignation Date, with each payment contingent on Mr. TJ Lee's compliance with the terms and conditions of the Separation Agreement (the "Separation Payment"). The Separation Payment will be made in lieu of the base-salary based cash severance payment under the Severance Agreement, dated November 3, 2015, among Mr. TJ Lee, MSK and the Company.

CEO Pay Ratio

For the 2018 fiscal year, the ratio of the annual total compensation of Young Joon Kim, our Chief Executive Officer ("CEO Compensation"), to the median of the annual total compensation of all of our employees other than our Chief Executive Officer ("Median Annual Compensation") was 40.6 to 1. This ratio is a reasonable estimate calculated in a manner consistent with Item 402(u) of Regulation S-K using the data and assumptions summarized below. In this summary, we refer to the employee who received such Median Annual Compensation as the "Median Employee." For purposes of this disclosure, the date used to identify the Median Employee was December 31, 2018 (the "Determination Date").

CEO Compensation for purposes of this disclosure represents the total compensation reported for Mr. YJ Kim under "Summary Compensation Table", which was $2,945,061 for the 2018 fiscal year. For purposes of this disclosure, Median Annual Compensation was $69,484, and was calculated by totaling for our Median Employee all applicable elements of compensation for the 2018 fiscal year in accordance with Item 402(c)(2)(x) of Regulation S-K.

To identify the Median Employee, we first determined our employee population as of the Determination Date. We had 2,511 employees, representing all full-time, part-time, seasonal and temporary employees of us and our consolidated subsidiaries as of the Determination Date, but excluding Mr. YJ Kim, and as permitted by applicable SEC rules, (i) any independent contractors or "leased" workers and (ii) all of our employees located in China (19), Taiwan (10), Japan (3), and Germany (3). We then measured compensation for the period beginning on January 1, 2018 and ending on December 31, 2018 for these employees. This compensation measurement was calculated by totaling, for each employee, total cash compensation paid (including salary, wages, tips, cash bonuses and other cash compensation paid in 2018) as shown in our payroll and human resources records for 2018. A portion of our employee workforce (full-time and part-time) worked for less than the full fiscal year due to commencing employment after the beginning of the fiscal year. In determining the Median Employee, we annualized the compensation for such individuals.

Equity Compensation Plan Information

The following table provides information as of December 31, 2018, regarding securities authorized for issuance under the Company's compensation plans. The Company's compensation plans include the 2009 Plan, the 2011 Plan, and the Purchase Plan. The numbers in the following table do not include options or shares that may be added to the issuable amounts under the 2011 Plan or the Purchase Plan, respectively, after December 31, 2018, in accordance with the terms of the respective plans.

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants or rights	(b) Weighted-average exercise price of outstanding options, warrants or rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders . . .	3,429,243(1)	$9.73(1)	1,024,938(2)
Equity compensation plans not approved by security holders	—	—	—
Total:	3,429,243		1,024,938

(1) Comprised of (a) stock options to purchase 271,144 shares of common stock under the 2009 Plan, at a weighted average exercise price of $6.25 per share, (b) stock options to purchase 2,403,612 shares of common stock under the 2011 Plan, at a weighted average exercise price of $10.12 per share, and (c) 754,487 shares of common stock subject to restricted stock units under the 2011 Plan. There are no outstanding securities under the suspended Purchase Plan.

(2) Excludes 1,163,880 shares of common stock that remain available as of December 31, 2018, for future issuance under the suspended Purchase Plan.

Equity Compensation Plan Summary

MagnaChip Semiconductor LLC 2009 Common Unit Plan

Following our emergence from our reorganization proceedings, in December 2009, our Board adopted, and our equityholders approved, the MagnaChip Semiconductor LLC 2009 Common Unit Plan, which we refer to as the 2009 Plan. The 2009 Plan provided for the grant of nonstatutory options, restricted unit bonus and purchase right awards, and deferred unit awards to employees and consultants of our Company and our subsidiaries and to members of our Board. However, only options and restricted unit bonus awards were granted under the 2009 Plan. In connection with our corporate conversion at the time of our initial public offering in March 2011, MagnaChip Semiconductor Corporation assumed the rights and obligations of MagnaChip Semiconductor LLC under the 2009 Plan and converted MagnaChip Semiconductor LLC common unit options and restricted common units outstanding under the 2009 Plan into options to acquire a number of shares of our common stock and shares of restricted common stock at a ratio of eight-for-one on substantially equivalent terms and conditions. The 2009 Plan terminated immediately following our corporate conversion, and no additional options or other equity awards may be granted under the 2009 Plan. However, options granted under the 2009 Plan prior to its termination will remain outstanding until they are either exercised or expire.

The 2009 Plan is administered by the Committee. Subject to the provisions of the 2009 Plan, the Committee determined in its discretion the persons to whom and the times at which awards were granted, the sizes of such awards, and all of their terms and conditions. All awards were evidenced by a written agreement between us and the holder of the award. The Committee has the authority to construe and interpret the terms of the 2009 Plan and awards granted under it. In the event of a change in control of our Company, the vesting of all outstanding awards held by participants whose employment has not previously terminated will accelerate in full. In addition, the Committee has the authority to require that outstanding awards be assumed or replaced with substantially equivalent awards by a successor corporation or to cancel the outstanding awards in exchange for a payment in cash or other property equal to the fair market value of restricted units or the excess, if any, of the fair market value of the units subject to an option over the exercise price per unit of such option.

2011 Equity Incentive Plan

Our 2011 Equity Incentive Plan, or the 2011 Plan, was approved by our Board and our stockholders in March 2010. We amended and restated the 2011 Plan in February 2011, and our stockholders approved the amendment in March 2011 to reflect that it became effective in 2011 upon our corporate conversion. 891,703 shares of our common stock, or the total number of shares of common stock (as adjusted by the conversion ratio in the corporate conversion) that remained available for grant upon the termination of the 2009 Plan immediately following the corporate conversion, were initially authorized and reserved. The share reserve under the 2011 Plan will automatically increase each January 1 through 2021, by an amount equal to the smaller of 2% of the number of shares of common stock issued and outstanding on the immediately preceding December 31 or an amount determined by our Board. The number of shares authorized for issuance under the 2011 Plan will also be increased from time to time by up to that number of shares of common stock remaining subject to options and restricted stock awards outstanding under the 2009 Plan at the time of its termination immediately following the corporate conversion that expire or terminate or are forfeited for any reason after the effective date of the 2011 Plan, subject to a cap of 1,412,352 shares. Appropriate adjustments will be made in the number of authorized shares and other numerical limits in the 2011 Plan and in outstanding awards to prevent dilution or enlargement of participants' rights in the event of a stock split or other change in our capital structure. Shares subject to awards granted under our 2011 Plan which expire, are repurchased, or are cancelled or forfeited will again become available for issuance under the 2011 Plan. The shares available will not be reduced by awards settled in cash. Shares withheld to satisfy tax withholding obligations will not again become available for grant. The gross number of shares issued upon the exercise of stock appreciation rights or options exercised by means of a net exercise or by tender of previously owned shares will be deducted from the shares available under the 2011 Plan. Our Board amended the 2011 Plan in October 2017 to provide that awards granted under the 2011 Plan are subject to recoupment or clawback in accordance with our clawback policy. The Committee amended the 2011 Plan in April 2018 to allow for withholding of shares of our common stock to cover tax withholding obligations up to an amount determined by the maximum applicable statutory rates, subject to certain limitations.

Awards may be granted under the 2011 Plan to our employees, including officers, directors, or consultants or those of any present or future parent or subsidiary corporation or other affiliated entity. While we may grant incentive stock options only to employees, we may grant nonstatutory stock options, stock appreciation rights, restricted stock purchase rights or bonuses, restricted stock units, performance shares, performance units and cash-based awards or other stock-based awards to any eligible participant. The 2011 Plan is administered by the Committee. Subject to the provisions of the 2011 Plan, the Committee determines in its discretion the persons to whom and the times at which awards are granted, the sizes of such awards, and all of their terms and conditions. All awards are evidenced by a written agreement between us and the holder of the award. The Committee has the authority to construe and interpret the terms of the 2011 Plan and awards granted under it.

In the event of a change in control as described in the 2011 Plan, the acquiring or successor entity may assume or continue all or any awards outstanding under the 2011 Plan or substitute substantially equivalent awards. Any awards which are not assumed or continued in connection with a change in control or are not exercised or settled prior to the change in control will terminate effective as of the time of the change in control. The Committee may provide for the acceleration of vesting of any or all outstanding awards upon such terms and to such extent as it determines, except that the vesting of all awards held by members of our Board who are not employees will automatically be accelerated in full. The 2011 Plan also authorizes the Committee, in its discretion and without the consent of any participant, to cancel each or any outstanding award denominated in shares upon a change in control in exchange for a payment to the participant with respect to each share subject to the cancelled award of an amount equal to the excess of the consideration to be paid per share of common stock in the change in control transaction over the exercise price per share, if any, under the award.

2011 Employee Stock Purchase Plan

Our 2011 Employee Stock Purchase Plan, or the Purchase Plan, was approved by our Board in March 2010. Our Board amended and restated the Purchase Plan in February 2011 to reflect that the Purchase Plan would become effective in 2011 upon the commencement of the MagnaChip IPO. The Purchase Plan was approved by our stockholders in March 2011 and became effective upon the commencement of the MagnaChip IPO. We initially authorized and reserved 789,890 shares for sale under the Purchase Plan. In August 2012, the Committee suspended the Purchase Plan. The Purchase Plan provides for an automatic annual increase in the number of shares available for issuance under the plan on January 1 of each year beginning in 2012 and continuing through and including January 1, 2021 equal to the lesser of (i) 1% of our then issued and outstanding shares of common stock on the immediately preceding December 31, (ii) 789,980 shares, or (iii) a number of shares as our Board may determine. Appropriate adjustments will be made in the number of authorized shares and in outstanding purchase rights to prevent dilution or enlargement of participants' rights in the event of a stock split or other change in our capital structure. Shares subject to purchase rights which expire or are canceled will again become available for issuance under the Purchase Plan. Because the Purchase Plan was suspended in August 2012, no annual increase in the number of shares authorized under such plan occurred on January 1, 2013 or in subsequent years.

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

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

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

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

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

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Related Person Transactions Policy

Under our Related Person Transactions Policy, transactions involving our directors, executive officers, significant stockholders and other related persons that involve an amount in excess of $120,000 must be approved by the Company's Audit Committee or, in the event it is determined that it is not practicable or desirable for the Company to wait until the next meeting of the full Audit Committee, the Chair of the Audit Committee (who possesses delegated authority to act between Audit Committee meetings). The Audit Committee (or the Chair of the Audit Committee, as applicable) will consider all of the relevant facts and circumstances available to it, including (if applicable) but not limited to: the benefits to the Company; the impact on a director's independence in the event the related person is a director, an immediately family member of a director or an entity in which a director is a partner, shareholder or executive officer; the availability of other sources for comparable products or services; the terms of the transaction; and the terms available to unrelated third parties or to employees generally. The Audit Committee may seek bids, quotes or independent valuations from third parties in connection with assessing any related person transaction. The Audit Committee (or the Chair of the Audit Committee, as applicable) will approve only those transactions that are in, or are not inconsistent with, the best interests of the Company, as the Audit Committee (or the Chair of the Audit Committee, as applicable) determines in good faith.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information regarding the beneficial ownership of our outstanding common stock for: (1) each person or entity known to us to beneficially own more than five percent (5%) of any class of our outstanding securities; (2) each member of our Board; (3) each of our named executive officers; and (4) all of the members of our Board and current executive officers, as a group. The following tables list the number of shares and percentage of shares beneficially owned based on 34,223,502 shares of common stock outstanding as of April 18, 2019.

The amounts and percentages of equity interests beneficially owned are reported on the basis of SEC regulations governing the determination of beneficial ownership of securities. Under SEC rules, a person is deemed to be a "beneficial owner" of a security if that person has or shares "voting power," which includes the power to vote or to direct the voting of such security, or "investment power," which includes the power to dispose of or to direct the disposition of such security. A person is also deemed to be a beneficial owner of any securities of which that person has the right to acquire beneficial ownership within 60 days. Under these rules, more than one person may be deemed to be a beneficial owner of the same securities and a person may be deemed to be a beneficial owner of the securities as to which he or she has no economic interest.

Except as indicated by footnote, the persons named in the table below have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them. Unless otherwise indicated, the address of each person listed in the table below is c/o MagnaChip Semiconductor, Ltd., 215 Daesin-ro, Heungdeok-gu, Cheongju-si, Chungcheongbuk-do, 28429, Korea.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership(1)	Percent of Class(1)
Principal Stockholders		
Brigade Capital Management, LP(2)	6,280,442	17.0%
Oaktree Value Opportunities Fund Holdings, L.P.(3)	3,250,000	9.5%
Evermore Global Advisors, LLC(4)	3,238,956	9.5%
Rubric Capital Management LP(5)	3,000,000	8.8%
AllianceBernstein L.P.(6)	2,697,462	7.9%
Hood River Capital Management LLC(7)	2,052,566	6.0%
Directors and Named Executive Officers		
Melvin Keating(8)	91,242	*
Ilbok Lee(9)	258,018	*
Camillo Martino(10)	99,142	*
Gary Tanner(11)	136,931	*
Nader Tavakoli(12)	346,778	1.0%
Young-Joon Kim(13)	458,978	1.3%
Jonathan Kim(14)	215,106	*
Theodore Kim(15)	180,950	*
Tae Jong Lee(16)	205,270	*
Woung Moo Lee(17)	166,117	*
Directors and current Executive Officers as a group (9 persons)(18)	1,953,262	5.5%

* Less than one percent

(1) Includes any outstanding common stock held and, to the extent applicable, shares issuable upon the exercise or conversion of any securities that are exercisable or convertible within 60 days of April 18, 2019.

(2) Based on the information contained in an Amendment No. 4 to Schedule 13G filed with the SEC on February 14, 2019 by Brigade Capital Management, LP ("Brigade Capital"), Brigade Capital Management GP, LLC ("Bridge Capital Management"), Brigade Leveraged Capital Structures Fund Ltd. ("Brigade

Fund") and Donald E. Morgan, III. Each of Brigade Capital, Brigade Capital Management, Brigade Fund and Mr. Morgan may be deemed to beneficially own the shares of common stock listed in the table above and has shared power to vote or to direct the vote and shared power to dispose or to direct the disposition of such shares (except that Brigade Fund beneficially owns, and shares power to vote or to direct the vote and shares power to dispose or to direct the disposition of, 5,181,932 of such shares). The shares of common stock listed in the table above include 5.00% Exchangeable Senior Notes due 2021 issued by MagnaChip Semiconductor S.A. (the "Exchangeable Senior Notes") that are exchangeable at the option of the holder into 2,713,507 shares of our common stock (except that for Brigade Fund the shares of common stock listed in the table above include Exchangeable Senior Notes that are exchangeable at the option of the holder into 1,726,226 shares of our common stock). The Exchangeable Senior Notes are subject to a blocker provision that precludes Brigade Capital and its affiliates from converting the Exchangeable Senior Notes to the extent that Brigade Capital and its affiliates would beneficially own (as determined in accordance with Section 13(d) of the Exchange Act) in excess of 12.49% of our common stock outstanding immediately after giving effect to such conversion. The business address of each of Brigade Capital, Bridge Capital Management and Mr. Morgan is 399 Park Avenue, 16th Floor, New York, New York 10022. The business address of Brigade Fund is c/o Intertrust Corporate Services (Cayman) Limited, 190 Elgin Avenue, George Town, Grand Cayman KY1-9005, Cayman Islands.

(3) Based on information contained in an Amendment No. 2 to Schedule 13G filed with the SEC on February 13, 2019 by each of the following entities (each an "Oaktree Entity"): Oaktree Value Opportunities Fund Holdings, L.P., a Delaware limited partnership ("VOF Holdings"), in its capacity as the direct owner of 3,250,000 shares of our common stock; Oaktree Value Opportunities Fund GP, L.P., a Cayman Islands limited partnership ("VOF GP"), in its capacity as the general partner of VOF Holdings; Oaktree Value Opportunities Fund GP Ltd., a Cayman Islands exempted company ("VOF GP Ltd."), in its capacity as the general partner of VOF GP; Oaktree Fund GP I, L.P., a Delaware limited partnership ("GP I"), in its capacity as the sole shareholder of VOF GP Ltd.; Oaktree Capital I, L.P., a Delaware limited partnership ("Capital I"), in its capacity as the general partner of GP I; OCM Holdings I, LLC, a Delaware limited liability company ("Holdings I"), in its capacity as the general partner of Capital I; Oaktree Holdings, LLC, a Delaware limited liability company ("Holdings") in its capacity as the managing member of Holdings I; Oaktree Capital Management, L.P., a Delaware limited partnership ("Management"), in its capacity as the sole director of VOF GP Ltd.; Oaktree Holdings, Inc., a Delaware corporation ("Holdings, Inc."), in its capacity as the general partner of Management; Oaktree Capital Group, LLC, a Delaware limited liability company ("OCG"), in its capacity as the managing member of Holdings and as the sole shareholder of Holdings, Inc.; and Oaktree Capital Group Holdings GP, LLC, a Delaware limited liability company ("OCGH GP"), in its capacity as the duly elected manager of OCG.

VOF Holdings directly holds the shares of common stock listed in the table above. VOF GP, in its capacity as the general partner of VOF Holdings, has the ability to direct the management of VOF Holdings' business, including the power to vote and dispose of securities held by VOF Holdings; therefore, VOF GP may be deemed to beneficially own the shares of our common stock deemed held by VOF Holdings. VOF GP Ltd., in its capacity as the general partner of VOF GP, has the ability to direct the management of VOF GP's business, including the power to direct the decisions of VOF GP regarding the vote and disposition of securities held by VOF Holdings; therefore, VOF GP Ltd. may be deemed to have indirect beneficial ownership of the shares of our common stock deemed held by VOF Holdings. GP I, in its capacity as the sole shareholder of VOF GP Ltd., has the ability to appoint and remove the directors and direct the management of the business of VOF GP Ltd. As such, GP I has the power to direct the decisions of VOF GP Ltd. regarding the vote and disposition of securities held by VOF Holdings; therefore, GP I may be deemed to have indirect beneficial ownership of the shares of our common stock deemed held by VOF Holdings. Capital I, in its capacity as the general partner of GP I, has the ability to direct the management of GP I's business, including the power to direct the decisions of GP I regarding the vote and disposition of securities held by VOF Holdings; therefore, Capital I may be deemed to have indirect beneficial ownership of the shares of our common stock deemed held by VOF Holdings. Holdings I, in its capacity as the general partner of Capital I, has the ability to direct the management of Capital I's business, including the power to direct the decisions of Capital I regarding the vote and disposition of securities held by VOF Holdings; therefore, Holdings I may be deemed to have indirect beneficial ownership of the shares of our common stock deemed held by VOF Holdings. Holdings, in its capacity as the managing member of Holdings I, has the ability to direct the management of Holding I's business, including the power to direct the decisions of Holdings I regarding the vote and disposition of securities held by VOF Holdings; therefore, Holdings may be deemed to have indirect beneficial ownership of the shares of our common stock deemed held by VOF Holdings. Management, in its capacity as the sole director of VOF GP Ltd., has the ability to direct the management of VOF GP Ltd., including the power to direct the decisions of VOF GP Ltd. regarding the vote and disposition of securities held by VOF Holdings; therefore, Management may be deemed to have indirect beneficial ownership of the shares of our common stock deemed held by VOF Holdings. Holdings, Inc., in its capacity as the general partner of Management, has the ability to direct the management of Management's business, including the power to vote and dispose of securities held by VOF Holdings; therefore, Holdings, Inc. may be deemed to have indirect beneficial ownership of the shares of our common stock deemed held by VOF Holdings. OCG, in its capacity as the managing member of Holdings, has the ability to direct the management of Holdings' business, including the power to direct the decisions of Holdings regarding the vote and disposition of securities held by VOF Holdings. Additionally, OCG, in its capacity as the sole shareholder of Holdings, Inc., has the ability to appoint and remove directors of Holdings, Inc. and, as such, may indirectly control the decisions of Holdings, Inc. regarding the vote and disposition of securities held by VOF Holdings. Therefore, OCG may be deemed to have indirect beneficial ownership of the shares of our common stock deemed held by VOF Holdings. OCGH GP, in its capacity as the duly appointed manager of OCG, has the ability appoint and remove directors of OCG and, as such, may indirectly control the decisions of OCG regarding the vote and disposition of securities held by VOF Holdings; therefore, OCGH GP may be deemed to have indirect beneficial ownership of the shares of our common stock deemed held by VOF Holdings. The business address of each Oaktree Entity is 333 S. Grand Avenue, 28th Floor, Los Angeles, CA 90071.

(4) Based on information contained in an Amendment No. 2 to Schedule 13G filed with the SEC on February 11, 2019 by Evermore Global Advisors, LLC ("EGA") and Evermore Global Value Fund, a series of Evermore Funds Trust ("EGVF"). EGA, other managed account clients of EGA and EGVF are the beneficial owners of the shares of common stock listed in the table above (except that 2,436,529 shares of common stock are beneficially owned by EGVF). Pursuant to the investment advisory agreements entered into by EGA and each of Evermore Funds Trust (of which EGVF is a series) and its other managed account clients, sole power to dispose or to direct the disposition of, and sole power to vote or to direct the vote over, the securities held by such persons has been delegated to EGA, although these agreements and the authority granted to EGA thereunder may be terminated without penalty upon proper notice. The business address of each of EGA and EGVF is 89 Summit Avenue, Summit, NJ 07901.

(5) Based on the information contained in an Amendment No. 1 to Schedule 13G filed with the SEC on February 14, 2019 by Rubric Capital Management LP ("Rubric Capital"), the investment adviser to certain investment funds and/or accounts (collectively, the "Rubric Funds") and David Rosen, Managing Member of Rubric Capital Management GP LLC, the general partner of Rubric Capital. Each of Rubric Capital and Mr. Rosen beneficially own the shares of common stock listed in the table above and has shared power to vote or to direct the vote and shared power to dispose or to direct the disposition of such shares. Rubric Capital Master Fund LP, a Rubric Fund, has the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of, more than 5% of our common stock. The business address for Rubric Capital and Mr. Rosen is 767 3rd Avenue, New York, NY 10017.

(6) Based on the information contained in an Amendment No. 1 to Schedule 13G filed with the SEC on February 13, 2019 by AllianceBernstein L.P. ("AllianceBernstein"). AllianceBernstein beneficially owns and has the sole power to dispose or to direct the disposition of the shares of common stock listed in the table above and has the sole power to vote or to direct the vote over 2,115,797 of such shares. The shares of common stock listed in the table above were acquired solely for investment purposes on behalf of client discretionary investment advisory accounts. AllianceBernstein is a majority owned subsidiary of AXA Equitable Holdings, Inc. and an indirect majority owned subsidiary of AXA SA. AllianceBernstein operates under independent management and makes independent decisions from AXA SA and AXA Equitable

Holdings, Inc. and their respective subsidiaries and AXA SA and AXA Equitable Holdings, Inc. calculate and report beneficial ownership separately from AllianceBernstein pursuant to guidance provided by the SEC in Release Number 34-39538 (January 12, 1998). The business address for AllianceBernstein is 1345 Avenue of the Americas, New York, NY 10105.

(7) Based on the information contained in an Amendment No. 1 to Schedule 13G filed with the SEC on February 13, 2019 by Hood River Capital Management LLC ("Hood River"). Hood River beneficially own the shares of common stock listed in the table above and has the sole power to dispose or to direct the disposition of such shares. The business address for Hood River is Umpqua Bank Plaza, One SW Columbia Street, Suite 630, Portland, OR 97258.

(8) Represents 10,100 shares of common stock, options to purchase 49,737 shares of common stock and 31,405 shares of common stock subject to RSUs that will be vested and may be exercised or settled, as applicable, as of June 17, 2019.

(9) Represents 15,706 shares of common stock, options to purchase 204,593 shares of common stock and 37,719 shares of common stock subject to RSUs that will be vested and may be exercised or settled, as applicable, as of June 17, 2019.

(10) Represents 18,000 shares of common stock, options to purchase 49,737 shares of common stock and 31,405 shares of common stock subject to RSUs that will be vested and may be exercised or settled, as applicable, as of June 17, 2019.

(11) Represents 5,408 shares of common stock, options to purchase 93,117 shares of common stock and 38,406 shares of common stock subject to RSUs that will be vested and may be exercised or settled, as applicable, as of June 17, 2019.

(12) Represents 95,356 shares of common stock, options to purchase 212,793 shares of common stock and 38,629 shares of common stock subject to RSUs that will be vested and may be exercised or settled, as applicable, as of June 17, 2019.

(13) Represents 123,063 shares of common stock and options to purchase 335,915 shares of common stock that will be vested and may be exercised as of June 17, 2019.

(14) Represents 60,196 shares of common stock and options to purchase 154,910 shares of common stock that will be vested and may be exercised as of June 17, 2019.

(15) Represents 53,340 shares of common stock and options to purchase 127,610 shares of common stock that will be vested and may be exercised as of June 17, 2019.

(16) Mr. Lee resigned his positions as our Executive Vice President and General Manager of our Foundry Services Group and from all other positions with us and our subsidiaries, effective as of January 9, 2019. Represents 56,460 shares of common stock and options to purchase 148,810 shares of common stock that will be vested and may be exercised as of June 17, 2019. The address for Mr. Lee is 88 Jamsil-Ro, Songpa-Gu, Seoul, Korea.

(17) Represents 46,307 shares of common stock and options to purchase 119,810 shares of common stock that will be vested and may be exercised as of June 17, 2019.

(18) Our directors and executive officers as of April 18, 2019 as a group beneficially own 1,953,262 shares of common stock or 5.5%, which represents 427,476 shares of common stock, options to purchase 1,348,222 shares of common stock and 177,564 shares of common stock subject to RSUs that will be vested and may be exercised or settled, as applicable, as of June 17, 2019.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Compliance with Section 16(a) of the Exchange Act requires the Company's executive officers and directors, and persons who own more than 10% of a registered class of its equity securities, to file reports of ownership and changes in ownership with the SEC. Officers, directors, and greater than 10% stockholders are required by SEC rules to furnish the Company with copies of all Section 16(a) forms they file.

Based solely on a review of the copies of such forms furnished to the Company, the Company believes that during 2018 all Section 16(a) filing requirements applicable to its officers, directors and greater than 10% stockholders were in compliance with Section 16(a).

PROPOSAL TWO

ADVISORY VOTE ON COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS

In accordance with Dodd-Frank Act, and Section 14A of the Exchange Act, the Board is asking stockholders to approve an advisory (non-binding) resolution on the compensation of our named executive officers. The vote is not intended to address any specific item of compensation, but rather the overall compensation of our named executive officers and the philosophy, policies and practices described in this Proxy Statement. The text of the resolution is as follows:

> RESOLVED, that the stockholders of MagnaChip Semiconductor Corporation approve, on an advisory basis, the compensation of the Company's named executive officers as disclosed in the proxy statement for the Company's 2019 annual meeting of stockholders pursuant to the compensation disclosure rules of the Securities Exchange Act of 1934, as amended (which disclosure includes the Compensation Discussion and Analysis section, the Summary Compensation Table for 2018 and the related compensation tables and narrative disclosure within the executive compensation sections of the proxy statement).

The Company urges you to read the disclosure under "Compensation Discussion and Analysis," in this Proxy Statement, which discusses how our compensation policies and procedures implement our pay-for-performance compensation philosophy. You should also read the Summary Compensation Table and other related compensation tables and narrative disclosure which provide additional details about the compensation of our named executive officers for fiscal 2018. We have designed our executive compensation structure to attract, motivate, and retain executives with the skills required to formulate and implement the Company's strategic objectives and create stockholder value. We believe that our executive compensation program is reasonable, competitive and strongly focused on pay for performance principles, and provides an appropriate balance between risk and incentives.

The vote regarding the compensation of the named executive officers described above, referred to as a "say-on-pay advisory vote," is advisory, and is therefore not binding on the Company, the Compensation Committee or the Board. Although non-binding, the Board and the Compensation Committee value the opinions that stockholders express in their votes and will review the voting results and take them into consideration when making future decisions regarding our executive compensation programs as they deem appropriate.

If no voting specification is made on a properly returned or voted proxy card, the proxies named on the proxy card will vote "FOR" the approval of the compensation of the named executive officers as disclosed in this Proxy Statement and described above.

The Board recommends that you vote "FOR" the advisory vote on named executive officer compensation.

PROPOSAL THREE

RATIFICATION OF APPOINTMENT OF OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING DECEMBER 31, 2019

Samil PricewaterhouseCoopers has been selected by the Audit Committee as the principal independent registered public accounting firm for the fiscal year ending December 31, 2019 for us and our subsidiaries. Our Board recommends a vote for ratification of the appointment of Samil PricewaterhouseCoopers as the independent registered public accounting firm to audit the books and accounts for us and our subsidiaries for the fiscal year ending December 31, 2019. It is expected that representatives of Samil PricewaterhouseCoopers will attend the Annual Meeting, with the opportunity to make a statement if they so desire, and, if a representative is in attendance, the representative will be available to answer appropriate questions.

The appointment of Samil PricewaterhouseCoopers as our independent registered public accounting firm is not required to be submitted to a vote of our stockholders for ratification. However, our Board believes that obtaining stockholder ratification is a sound governance practice. If our stockholders fail to vote on an advisory basis in favor of the appointment of Samil PricewaterhouseCoopers, the Audit Committee will take such actions as it deems necessary as a result of such stockholder vote.

Fees Paid to Independent Registered Public Accounting Firm

The following table presents fees billed for professional services rendered by Samil PricewaterhouseCoopers and its affiliates for the years ended December 31, 2018 and 2017.

	Year Ended December 31	
	2018	2017
	(in millions)	
Audit fees	$ 1.6	$ 1.9
Audit Related fees	—	—
Tax fees	—	—
All other fees	—	—
Total	$ 1.6	$ 1.9

Policy and Procedure for Approval of Audit and Permitted Non-Audit Services

All audit fees were pre-approved by the Company’s Audit Committee, which concluded that the provision of such services by Samil PricewaterhouseCoopers and its affiliates was compatible with the maintenance of that firm’s independence in the conduct of its auditing functions. With respect to outside auditor independence, the Audit Committee Charter provides for pre-approval of audit services and non-audit services, based on independence, qualifications and, if applicable, performance, and approve the fees and other terms of any such engagement. The Audit Committee Charter authorizes the Audit Committee to delegate to one or more of its members the authority to grant pre-approvals for such services, provided that the decisions of such member(s) to grant any such pre-approval shall be presented to the Audit Committee at its next scheduled meeting. The Audit Committee followed these guidelines in approving all services rendered by Samil PricewaterhouseCoopers and its affiliates.

The Board recommends that you vote “FOR” the ratification of the appointment of Samil PricewaterhouseCoopers as our independent registered public accounting firm for the fiscal year ending December 31, 2019.

STOCKHOLDER PROPOSALS FOR 2020 ANNUAL MEETING

A stockholder who would like a proposal considered for inclusion in our proxy statement relating to our 2020 annual meeting pursuant to Rule 14a-8 ("Rule 14a-8") under the Exchange Act must be received by the Corporate Secretary of the Company no later than January 1, 2020 and must otherwise comply with Rule 14a-8.

Any stockholder proposals received outside of the Rule 14a-8 procedure for consideration at our 2020 annual meeting must be received by the Corporate Secretary of the Company between February 12, 2020 and March 13, 2020. If, however, the date of the 2020 annual meeting is changed by more than 30 days from the anniversary date of this year's Annual Meeting, the stockholder notice described above will be deemed timely if it is received not later than the close of business on the later of the 90th calendar day prior to such annual meeting and the 10th calendar day after public announcement of the date of such meeting. Such proposals must be addressed to MagnaChip Semiconductor Corporation, c/o MagnaChip Semiconductor, Inc., 60 South Market Street, Suite 750, San Jose, CA 95113, Attention: Secretary. If we do not receive such notice within the timeframe described above, the notice will be considered untimely and the proposal may not be brought.

In addition to the timely notice requirements, a stockholder's proposal for nominees for directors must comply with Section 2.15 of the Company's bylaws and other applicable procedures described therein or established by our Nominating and Corporate Governance Committee. See "The Board of Directors and Corporate Governance—Nominating and Corporate Governance Committee." Stockholder proposals related to other business must also comply with Section 1.10 of the Company's bylaws. Furthermore, any stockholder proposal must comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder.

Our proxy for the 2020 annual meeting will grant authority to the persons named therein to exercise their voting discretion with respect to any matter of which we did not receive notice between February 12, 2020 and March 13, 2020. Notices should be submitted to the address set forth above.

SOLICITATION OF PROXIES

We will bear the costs of soliciting proxies from our stockholders. In addition to the use of the mails, proxies may be solicited by our directors, officers and employees by personal interview, telephone or telegram. Such directors, officers and employees will not be additionally compensated for such solicitation, but may be reimbursed for out-of-pocket expenses incurred in connection therewith. Arrangements will also be made with brokerage houses and other custodians, nominees and fiduciaries for the forwarding of solicitation materials to the beneficial owners of our common stock held of record by such persons, and we will reimburse such brokerage houses, custodians, nominees and fiduciaries for reasonable out-of-pocket expenses incurred in connection therewith.

OTHER MATTERS

The directors know of no other matters which are likely to be brought before the Annual Meeting. The enclosed proxy card grants to the persons named in the proxy card the authority to vote in their best judgment regarding all other matters properly raised at the Annual Meeting.

By Order of the Board of Directors

/s/ Theodore Kim

Theodore Kim
Chief Compliance Officer, Executive Vice President,
General Counsel and Secretary

April 30, 2019

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, 2018

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	**83-0406195**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**

c/o MagnaChip Semiconductor S.A.
1, Allée Scheffer, L-2520
Luxembourg, Grand Duchy of Luxembourg
(Address of principal executive offices) (Zip Code)

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

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

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.01 per share	**New York Stock Exchange**

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☐ Yes ☒ No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ☐ Yes ☒ No
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No
Indicate by check mark whether the registrant has submitted electronically, every Interactive Data File required to be submitted 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 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	☐	Accelerated Filer	☒
Non-Accelerated Filer	☐	Smaller Reporting Company	☐
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐
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. $280,313,167.
As of February 15, 2019, the registrant had 34,091,378 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement relating to its 2019 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.

MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2018
TABLE OF CONTENTS

PART I

INDUSTRY AND MARKET DATA

We have made statements in this Annual Report on Form 10-K for the year ended December 31, 2018 (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 designer and manufacturer of analog and mixed-signal semiconductor platform solutions for communications, Internet of Things ("IoT") applications, consumer, industrial and automotive 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 with about 40 years of operating history, a portfolio of approximately 3,000 registered patents and pending 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 communications, IoT, consumer, industrial and automotive applications. Our Standard Products Group is comprised of two business lines: Display Solutions and Power Solutions. Our Display Solutions products provide panel display solutions to major suppliers of large and small rigid and flexible panel displays, mobile, automotive applications and home appliances. Our Power Solutions products include discrete and integrated circuit solutions for power management in communications, consumer 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 demands 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, 2018 and December 31, 2017, 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 communications, IoT, consumer, industrial and automotive 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 devices, televisions 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, 2018, we generated net sales of $750.9 million, net loss of $3.9 million, Adjusted EBITDA of $84.3 million and Adjusted Net Income of $27.1 million. See "Item 6. Selected Financial Data" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" elsewhere in this Report for an explanation of our use of Adjusted EBITDA and Adjusted Net Income and a reconciliation to net income (loss) prepared in accordance with 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."

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 provides flat panel display solutions to major suppliers of large and small flat panel displays. These products include source and gate drivers and timing controllers that cover a wide range of flat panel displays used in high definition (HD), full high definition (FHD), ultra high definition (UHD), 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 OLEDs, and low temperature polysilicons thin film transistor (LTPS TFT), as well as high-volume display technologies such as amorphous silicon thin film transistors (a-Si TFTs). Our Display Solutions products represented 34.1%, 30.8% and 41.0% of our net sales for the fiscal years ended December 31, 2018, 2017 and 2016, respectively.

We expanded our business and market opportunity by establishing our Power Solutions product line in late 2007. We have introduced a number of 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), 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, e-bike, photovoltaic inverter, LED lighting, motor drive and home appliances. Our Power Solutions products represented 22.5%, 22.0% and 19.1% of our net sales for the fiscal years ended December 31, 2018, 2017 and 2016, respectively.

Through our Foundry Services Group, 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 43.3%, 47.1% and 39.8% of our net sales for the fiscal years ended December 31, 2018, 2017 and 2016, respectively.

We manufacture the majority of our products at our two fabrication facilities located in Korea. We have approximately 508 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.

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 devices, televisions 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 capacity to 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.
- ***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 are 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 419 engineers as of the date of this Report. 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 OLED 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 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 improved system efficiency and system 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, cash flow and profitability and to continue strengthening our position in the semiconductor industry 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 semiconductor 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 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 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.

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) and chip-on-film (COF) for rigid, flexible bezel-less, edge type, and trench type OLED displays. Our advanced display drivers incorporate LTPS TFT and OLED 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), automatic current limit (ACL) and optical compensation technology for OLED displays.

We have a long history of specialized process technology development and have a number of distinctive process implementations. We have approximately 508 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 bipolar-CMOS-DMOS(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, and EEPROM. 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, LED drivers, linear regulators and analog switches, power MOSFETs and IGBTs. We believe our system-level understanding of applications such as LCD televisions and smartphones 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 specialty analog and mixed-signal foundry services to fabless semiconductor companies and IDMs that serve communications, IoT, consumer, industrial and automotive 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 508 process flows to our Foundry Services Group 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 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 communications, IoT, consumer, industrial and automotive 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 allows die size reduction 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.

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	• 0.13-0.5µm • Low noise • Ultra low power • Triple gate • RF SOI • 0.13µm Slim* • 0.18µm Slim	• Analog to digital converter • Digital to analog converter • Audio codec • Chipset • RF switch • Digital tunable capacitor • Fingerprint sensor	• Smartphones • Tablet PCs • Notebooks • PC peripherals • DVD players • LCD TVs

Process	Technology	Device	Application
Power	• 0.13*-0.35μm • BCD 40V-120V* • Deep trench isolation • MOSFET • Ultra high voltage • Thick metal • Slim BCD 100V* • Simplified UHV	• Power management • LED driver • High power audio amp • Power Over Ethernet • DC/DC converter • USB type-C • Wireless power charger	• Smartphones • Tablet PCs • Notebooks • LCD TVs • LED lighting • LCD monitors • Automotive
High-Voltage CMOS	• 0.11-0.35μm • 18V-45V • Bipolar	• Display driver • CSTN driver	• Smartphones • Tablet PCs • LCD TVs • Desktop PCs • LCD monitors
NVM	• 0.11*-0.35μm • EEPROM, Ultra low leakage • Slim flash, Ultra low leakage • eFlash • OTP • MTP	• Microcontroller • Touch screen controller • Electronic tag memory • Hearing aid controller • Fingerprint sensor • Auto Focus IC	• 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).
- ***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 (AIPI), 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 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 1,542 channels. Our large display solutions are designed to allow customers to cost-effectively meet the increasing demand for high resolution displays. We focus extensively on reducing the die size of our large display drivers and other solutions products to reduce costs without having to migrate to smaller geometries. For example, we have implemented several solutions to reduce die size in large display drivers, such as optimizing design schemes and design rules and applying specific technologies that we have developed internally. We have recently introduced a number of new large display drivers with reduced die size.

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

Product	Key Features	Applications
TFT-LCD Source Drivers	• 480 to 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, AIPI, USI interface technologies	• UHD/HD/LED/3D TVs • Notebooks • LCD/LED monitors • Automotive
TFT-LCD Gate Drivers	• 272 to 960 output channels • Output voltage ranging from 30V to 45V • COF and COG package types	• Tablet PCs • HD/LED/3D TVs • Notebooks • Automotive
Timing Controllers	• Wide range of resolutions • EPI, m-LVDS, MIPI, USI-T interface technologies • Input voltage ranging from 1.6V to 3.6V	• Tablet PCs • Public information display
OLED Source Drivers	• 960 output channels • 10 bit (1 billion colors) • Output voltage: 18V • COF package type • EPI interface technology	• OLED TVs

Mobile Display Solutions. Our mobile display solutions incorporate the industry's most advanced display technologies, such as OLED and LTPS, as well as high-volume technologies such as a-Si 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. Our OLED driver ICs can support various configurations such as high resolution from FHD+(2,240x1,080) to QHD+(3,120x1,440), wide aspect ratio from 16:9 to 21:9 and flexible bezel-less, edge type, and trench type OLED displays.

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
OLED	• Resolutions of HD720, WXGA, FHD, FHD+, QHD and QHD+ • Aspect ratio from 16:9 to 21:9 • Color depth of 16 million • MIPI, eRVDS interface • Logic-based OTP • ABC, ACL	• Smartphones • Game consoles • Digital still cameras • Tablet PCs • Virtual reality headsets
LTPS	• Resolutions of VGA, WSVGA, WVGA and DVGA • Color depth of 16 million • MDDI, MIPI interface • Logic-based OTP • Separated gamma control	• Smartphones • Digital still cameras
a-Si TFT	• Resolutions of WQVGA and HVGA • Color depth of 16 million • RSDS, MDDI, MIPI interface • CABC • Separated gamma control	• Mobile phones • Digital still cameras • Automotive

Form 10-K

Power Solutions

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

- ***MOSFETs.*** Our MOSFETs include low-voltage to mid-voltage, Trench MOSFETs, 12V to 150V, high-voltage Planar MOSFETs, 200V through 700V, and super junction MOSFETs, 500V through 900V. MOSFETs are used in applications to switch, shape or transfer electricity under varying power requirements. The key application segments are smartphones, mobile phones, LCD, LED, and 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.
- ***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, 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's green power requirements by featuring wide input voltage ranges, high efficiency and small size.
- ***LED Drivers.*** LED backlighting drivers serve the fast-growing LCD and LED panel backlighting market for LCD and LED televisions, LCD monitors, digital signage, 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.
- ***Regulators.*** We also provide analog 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 solid state drive power management integrated circuit (SSD PMIC) for the computing segment. Our product is designed for high frequency switching, high efficiency and pulse frequency modulation (PFM) function to reduce power consumption in low load 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:

Product	Key Features	Applications
Low-Mid Voltage MOSFET	• Voltage options of 12V-150V • Advanced Trench MOSFET Process • High cell density • Advanced packages to enable reduction of PCB mounting area	• Smartphones and mobile phones • Tablet PCs, Notebooks • Desktop PCs, Servers • LCD/LED/UHD TVs • Industrial applications • Cryptocurrency miner
High Voltage MOSFET	• 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	• Adaptors for tablet PC/mobile phone/smartphone • Power supplies • Lighting (ballast, HID, LED) • Industrial applications • LCD/LED/UHD TVs

Product	Key Features	Applications
Super Junction MOSFET	• Voltage options of 500V-900V • Low $R_{DS(ON)}$ • Epi stack process	• LCD/LED/UHD TVs • Lightings applications (ballast, HID, LED) • Smartphones • Power supplies • Servers • Industrial applications
IGBTs	• Voltage options of 650V/1200V • Field Stop Trench IGBT • Current options from 15A to 60A	• Industrial applications • Consumer appliances
AC-DC Converter	• Wide control range for high power application (>150W) • Advanced BCDMOS process • High Precision Voltage Reference • Very low startup current consumption	• LCD/LED/UHD TVs • Power supplies
DC-DC Converters	• High efficiency, wide input voltage range • Advanced BCDMOS process • Fast load and line regulation • Accurate output voltage • OCP, SCP and thermal protections	• LCD/LED/UHD TVs • Smartphones • Mobile phones • Notebooks • Set-top boxes
LED Backlighting Drivers	• 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	• Tablet PCs • Notebooks • Smartphones • LED/UHD TVs • LED monitors
Digital Controlled LED Driver	• Multi-channel constant current control • 12Bit gray scale with SPI	• Digital signage
LED Lighting Drivers	• High efficiency, wide input voltage range • Simple solutions with external components fully integrated • Advanced high voltage BCDMOS process • Accurate LED current control and high power factor and low THB	• AC and DC LED lighting

Product	Key Features	Applications
Regulators	• Single and multi-regulators • Low Noise Output regulators • Wide range of input voltage and various output current • CMOS and BCDMOS processes	• Smartphones and Mobile phones • Notebooks
SSD PMIC	• High current buck • PFM function • High frequency switching • High efficiency • High integration technology • Small QFN package	• Computing

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 US, Japan, Greater China and Europe. We have a network of agents and distributors in Korea, the US, Japan, Greater China and Europe. For the years ended December 31, 2018, 2017 and 2016, we derived 77%, 75% and 77% of net sales through our direct sales force, respectively, and 23%, 25% and 23% of net sales through our network of authorized agents and distributors, respectively.

Customers

We sell our Display Solutions and Power Solutions products 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, 2018, 2017 and 2016, our ten largest customers accounted for 61%, 57% and 64% of our net sales, respectively. For the year ended December 31, 2018, sales to Samsung Display Corporation represented 19.3% of our net sales and 56.6% of our Display Solutions division's net sales, and LG Display represented 13.3% of our net sales and 38.9% of our Display Solutions division's net sales. For the year ended December 31, 2017, sales to LG Display represented 15.6% of our net sales and 50.6% of our Display Solutions division's net sales. 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, 2018, we recorded revenues of $37.5 million from customers in the US and $713.4 million from all foreign countries, of which 39.6% was from Korea, 14.0% from Taiwan, 4.5% from the United Kingdom and 35.5% from Greater China. For the year ended December 31, 2017, we recorded revenues of $35.1 million from customers in the US and $644.6 million from all foreign countries, of which 43.4% was from Korea, 18.2% from Taiwan, 3.7% from the United Kingdom and 24.9% from Greater China. For the year ended December 31, 2016, we recorded revenues of $33.2 million from customers in the US 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.

Intellectual Property

As of December 31, 2018, our portfolio of intellectual property assets included approximately 2,678 registered patents and 307 pending patent applications. Approximately 1,948 and 137 of our patents and pending applications, respectively, 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 730 registered patents and 170 pending applications that relate to identical technical claims in our base patent portfolio. Our patents expire at various times approximately over the next 19 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 2,515 employees (full- and part-time) as of December 31, 2018, of which 346 were involved in sales, marketing, general and administrative, 419 in research and development (including 194 with advanced degrees), 103 in quality, reliability and assurance and 1,647 in manufacturing (comprised of 256 in engineering and 1,391 in operations). As of December 31, 2018, our workforce consisted of 2,515 employees, of which 1,479 employees, or approximately 59% of our workforce, were represented by the MagnaChip Semiconductor Labor Union.

Environmental

We are subject to a variety of environmental, health and safety laws and regulations in each of the jurisdictions in which we operate, governing, among other things, air emissions, wastewater discharges, the generation, use, handling, storage and disposal of, and exposure to, hazardous substances (including asbestos) and waste, soil and groundwater contamination and employee health and safety. These laws and regulations are complex, change frequently and have tended to become more stringent over time. 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."

Available Information

Our principal executive offices are located at: c/o MagnaChip Semiconductor S.A., 1, Allée Scheffer, L-2520 Luxembourg, Grand Duchy of Luxembourg, and our telephone number is (352) 45-62-62. Our website address is www.magnachip.com. Our annual, quarterly and current reports on Forms 10-K, 10-Q or 8-K, respectively, and all amendments thereto filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, can be accessed, free of charge, at our website as soon as practicable after such reports are filed with the SEC. In addition, our Corporate Governance Guidelines, Code of Business Conduct and Ethics, Clawback Policy, 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. In addition, the SEC maintains an internet site, www.sec.gov, from which you can access our annual, quarterly and current reports on Form 10-K, 10-Q and 8-K, respectively, and all amendments to these materials after such reports and amendments are filed with the SEC. You may also request a copy 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:

Name	Age	Position
Young-Joon (YJ) Kim	54	Chief Executive Officer and Director
Jonathan Kim	44	Chief Financial Officer, Executive Vice President and Chief Accounting Officer
Theodore Kim	49	Chief Compliance Officer, Executive Vice President, General Counsel and Secretary
Woung Moo Lee	56	Executive Vice President and General Manager, Standard Products Group

Young-Joon (YJ) Kim, Chief Executive Officer and Director. Mr. YJ Kim became our Chief Executive Officer in May 2015 and has also served as a director on our Board since that time. Mr. Kim joined our company in May 2013 and served as our Executive Vice President and General Manager, Display Solutions Division. He was promoted to Interim Chief Executive Officer in May 2014. He also served as the acting General Manager of our Foundry Services Group from May to November 2015. Prior to joining our company, Mr. Kim held a variety of senior management roles at several global semiconductor firms in a career spanning nearly 30 years. His past roles include marketing, engineering, product development and strategic planning, and his product expertise includes microprocessors, network processors, FLASH, EPROM, analog, mixed-signal, sensors, workstations and servers. Immediately before joining our company, Mr. Kim served as Vice President, Infrastructure Processor Division, and General Manager of the OCTEON Multi-Core Processor Group of Cavium, Inc., where he worked from 2006 to 2013. Prior to Cavium, Mr. Kim served as Core Team Lead and General Manager of the Tolapai Program at Intel Corporation from 2004 to 2006. In 1998, Mr. Kim co-founded API Networks, a joint venture between Samsung and Compaq, where he served as the head of product management, worldwide sales and business development for Alpha processors. Prior to API Networks, Mr. Kim served as Director of Marketing at Samsung Semiconductor, Inc. from 1996 to 1998. Mr. Kim began his career as a product engineer at Intel Corporation. Mr. Kim holds B.S. and M. Eng. degrees in Electrical Engineering from Cornell University. Our Board has concluded that Mr. YJ Kim is a valuable member of the Board based on his understanding of our company's products and technology as our Chief Executive Officer and his deep knowledge of the semiconductor industry.

Jonathan Kim (J. Kim), Chief Financial Officer, Executive Vice President and Chief Accounting Officer. Mr. Jonathan Kim was appointed 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 MagnaChip, Mr. Kim served since July 2010 as the Chief Financial Officer of StartForce, 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. Kim continued to serve as the Chief Financial Officer at ZeroDesktop through March 2014. Mr. Kim also served as a principal at a Silicon Valley based investment and advisory firm where he led investments in startup companies in the US and Korea. Mr. Kim began his career in public accounting and held various positions with Deloitte for nearly 10 years, serving Global Fortune 500 and US multinational publicly traded clients in the Technology, Media & Telecommunication sectors. Mr. 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, and prior to that, he worked as an associate attorney at Morrison & Foerster LLP, a law firm, from 1997 to 2001. 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.

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. He previously served as our Senior Vice President, Korea Sales from 2013. Prior to joining our company, he 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 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.

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

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

We must develop new products and services and enhance our existing products and services to meet rapidly evolving customer requirements. We design products for customers that 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.

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 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, strategic evaluations and decisions by the Board related to the Company's overall business, divisions and business lines, 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 factors and circumstances 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, 2018, 2017 and 2016, our ten largest customers accounted for 61%, 57% and 64% of our net sales, respectively. For the year ended December 31, 2018, sales to Samsung Display Corporation represented 19.3% of the Company's net sales and 56.6% of our Display Solutions division's net sales, and sales to LG Display represented 13.3% of the Company's net sales and 38.9% of our Display Solutions division's net sales. For the year ended December 31, 2017, sales to LG Display represented 15.6% of the Company's net sales and 50.6% of our Display Solutions division's net sales. 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. Significant reductions in sales to any of these customers, especially our few largest customers, the loss of other major customers or a general curtailment in orders for our high-volume products or services within a short period of time would adversely affect our business.

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

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

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

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

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

- our ability to offer cost-effective and high quality products and services on a timely basis using our technologies;
- our ability to accurately identify and respond to emerging technological trends and demand for product features and performance characteristics;
- our ability to continue to rapidly introduce new products that are accepted by the market;
- our ability to adopt or adapt to emerging industry standards;
- the number and nature of our competitors and competitiveness of their products and services in a given market;
- entrance of new competitors into our markets;
- our ability to enter the highly competitive power management market; and
- our ability to continue to offer in demand 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 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 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.

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 US dollars, changes in the exchange rate between the Korean won and the US 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 US dollars relative to Korean won, a depreciation in the US 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 US 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 year ended December 31, 2018 due to a relative stronger Korean won during the period. Moreover, our foreign currency gain or loss would be affected by changes in the exchange rate between the Korean won and the US 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 US dollars. As of December 31, 2018, the outstanding intercompany loan balance including accrued interests between our Korean subsidiary and our Dutch subsidiary was $666.6 million. Our Dutch subsidiary uses the US 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 common stock or the price of the Exchangeable Notes or the 2021 Notes (each as defined below) 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 US 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 US dollars and provide us the option to sell specified notional amounts in US 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.

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, 2018, 1,479 employees, or approximately 59% 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 manufacturing 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, and Taiwan. 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 OLED 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 form these vendors could have a material impact on our revenue and results of operations.

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. 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. We from time to time may enter into multi-year agreements, which specify future quantities and pricing of materials to be supplied by the vendors of these materials; however, this option may not be available to us and we cannot assure that 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 and procedures pertaining to a manufacturer's efforts regarding the source of such minerals. 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.

We could suffer adverse tax and other financial consequences as a result of changes in, or differences in the interpretation of, applicable tax laws, including the recently enacted tax reform legislation in the United States.

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. Our 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.

On December 22, 2017, H.R. 1, originally known as the Tax Cuts and Jobs Act in the US, was enacted (the "Tax Reform"). The Tax Reform reduces the US federal statutory rate to 21.0% from 35.0% effective January 1, 2018. The Tax Reform contains several key provisions that affect our assessment of deferred taxes, which include the remeasurement of deferred taxes, recognition of liabilities for taxes on mandatory deemed repatriation and certain other foreign income, and reassessment of the realizability of deferred tax assets.

As of December 31, 2017, we remeasured our deferred tax assets and liabilities at the reduced rate of 21.0%, assessed the realizability of remeasured deferred tax assets and reduced our net deferred tax assets by $13.4 million in 2017. During 2018, we analyzed the mandatory deemed repatriation tax and concluded that we have no tax liability on previously untaxed accumulated earnings and profits of our foreign subsidiaries. We also reviewed the other components of the Tax Reform and based on our evaluation, no material impact was recorded to our consolidated financial statements for the year ended December 31, 2018.

Recent changes in international trade policy and the imposition and threats of international tariffs, including tariffs applied to goods traded between the United States and China, could materially and adversely affect our business and results of operations.

Since the beginning of 2018, there have been increasing public threats and, in some cases, legislative or executive action, from US and foreign leaders regarding instituting tariffs against foreign imports of certain materials. More specifically, since March of 2018, the US and China have applied tariffs to certain of each other's exports. The institution of trade tariffs globally, and between the US and China specifically, may negatively impacting China's overall economic condition, which could negatively affect demand for our products in China and materially and adversely affect our business and results of operations of our customers serving the China markets. Furthermore, imposition of tariffs could increase costs of the end-user products we supply or those manufactured by our Foundry Services Group that we may not be able to pass on to our customers, which could in turn cause a decrease in the sales of our products and services and materially and adversely affect our business and results of operations.

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 US 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 US. 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 US. 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 US until they are published. In addition, the semiconductor industry is characterized by frequent litigation regarding patent and other intellectual property rights. We may need to file lawsuits to enforce our patents or intellectual property rights, and we may need to defend against claimed infringement of the rights of others. Any litigation could result in substantial costs to us and divert our resources, and we cannot assure you that we will prevail. Any claims of intellectual property infringement or misappropriation against use, 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 in Korea 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 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. During the first implementation period from 2015 to 2017, we did not exceed the allocated emission amount. We are in the second implementation period that covers from 2018 to 2020. We will continue to monitor our compliance with the emissions allowance for the referred 3-year period on a cumulative basis as well as for an individual year basis. As of December 31, 2018, we had a sufficient emissions allowance and, accordingly, no liability was recorded. In addition, from time to time, if we assess that we have excess allowances, we may sell such excess allowances to manufacturers in the emission market in Korea.

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. 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. In addition, our indebtedness limits our ability to incur additional indebtedness under certain circumstances.

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.

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, in recent years, there have been heightened security concerns stemming from North Korea's nuclear weapon and long-range missile programs and increased uncertainty regarding North Korea's actions and possible responses from the international community.

North Korea's economy also faces severe challenges, and any adverse economic developments may further aggravate social and political tensions within North Korea.

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

We may be subject to disruptions, breaches or cyber-attacks of our secured networks and information technology systems that could damage our reputation, harm our business, expose us to liability and materially adversely affect our results of operations.

In the ordinary course of our business, we collect and store sensitive data, including IP and other proprietary information about our business and that of our customers, suppliers and business partners. Secure maintenance, processing and transmission of this information is critical to our operations and business strategy. We may be subject to disruptions, breaches or cyber-attacks of our secured networks and information technology systems caused by illegal hacking, criminal fraud or impersonation, computer viruses, acts of vandalism or terrorism or employee error, and our security measures or those of any third party service providers we use may not detect or prevent such security breaches. We may incur significant costs to eliminate or alleviate cybersecurity breaches and vulnerabilities, which could be significant, and our efforts to protect against such breaches or vulnerabilities may not be successful and could result in system interruptions that may materially impede our sales, manufacturing, distribution, finance or other critical functions. Any such compromise of our information security could also result in the unauthorized publication of our confidential business or proprietary information or that of other parties with which we do business, an interruption in our operations, the unauthorized transfer of cash or other assets, the unauthorized release of customer or employee data or a violation of privacy or other laws in the jurisdictions in which we operate. Any of the foregoing could irreparably damage our reputation and business and/or expose us to material monetary liability, which could have a material adverse effect on our results of operations.

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

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, 2018, our total indebtedness was $303.6 million, which represents the principal amount outstanding under our 6.625% Senior Notes due 2021 ("2021 Notes") and 5.0% Exchangeable Senior Notes due 2021 ("Exchangeable Notes"), excluding $5.6 million of unamortized discount and debt issuance costs. 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 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 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 our outstanding Exchangeable Notes and 2021 Notes contain, and our future debt agreements will likely contain, covenants that significantly restrict our operations.

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

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

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 US 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 until 2016, we 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, 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, restructuring and other restructuring related 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, restructuring or other restructuring related 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. Although we recognized a net restructuring and other gain of $17.0 million and $6.5 million for the years ended December 31, 2017 and 2016, respectively, we also recorded early termination charges of $13.4 million and $4.2 million for the same periods in connection with our workforce reduction efforts. In the future, we may need to record additional impairment charges or to further restructure our business or incur additional restructuring charges, any of which could have a material adverse effect on our results of operations or financial condition.

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

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

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

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

- actual or anticipated variations in our results of operations from quarter to quarter or year to year;
- 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.

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

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

- authorize our Board of Directors to issue, without stockholder approval, preferred stock with such terms as the Board of Directors may determine;
- 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
- 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 two fabrication facilities located in Korea in Cheongju and Gumi. Our facilities have a combined capacity of approximately 113,000 eight-inch equivalent wafers per month. We manufacture wafers utilizing geometries ranging from 0.11 to 0.50 microns. The Cheongju facilities have two main buildings totaling 121,672 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, and Taiwan. The relative cost of outsourced services, as compared to in-house services, depends upon many factors specific to each product and circumstance. However, we generally incur higher costs for outsourced services, which can result in lower margins.

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

Item 3. Legal Proceedings

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 legal proceedings that we believe would have a material adverse effect on our business, financial condition or results of operations.

See also “Item 1A. Risk Factors” and “Item 8. Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Note 18” in this Report for additional information.

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

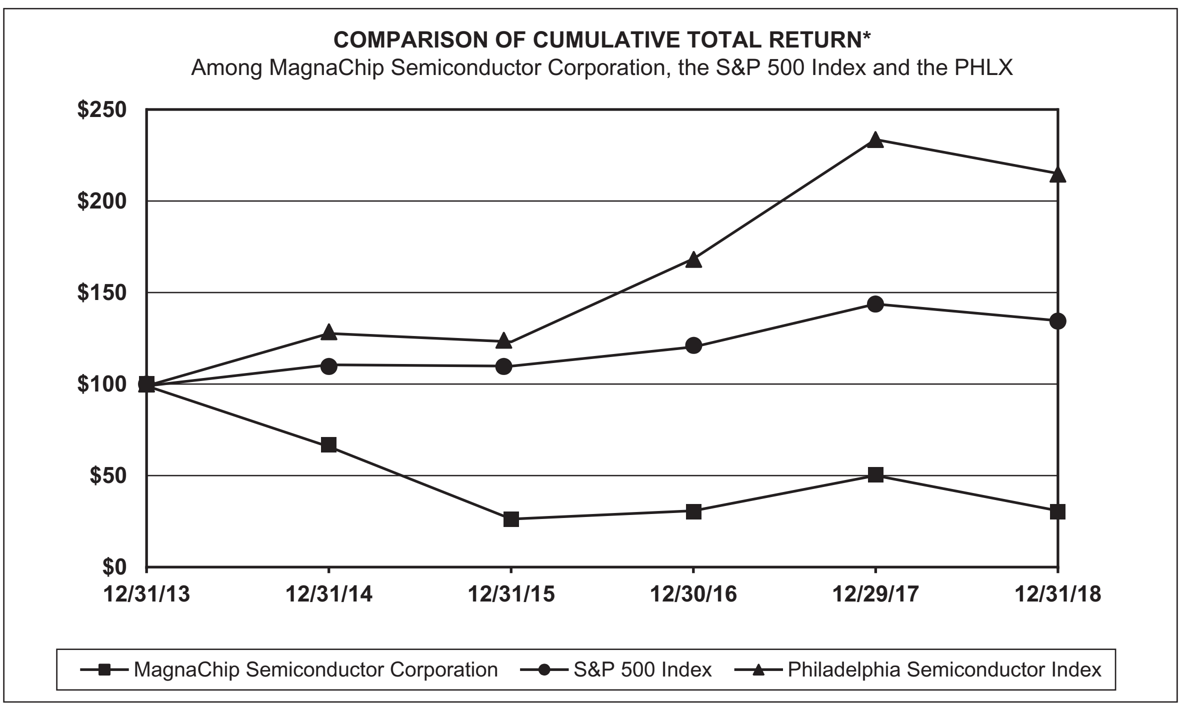
Our common stock is listed on the New York Stock Exchange under the symbol "MX."

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 31, 2013 (the last trading day before the beginning of our fifth preceding fiscal year) through December 31, 2018. The graph assumes that $100 was invested on December 31, 2013 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, 2018.

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 12/31/2013	12/31/2014	12/31/2015	12/30/2016	12/29/2017	12/31/2018
MagnaChip Semiconductor Corporation	100	66.62	27.13	31.79	51.03	31.85
S&P 500 Index	100	111.39	110.58	121.13	144.65	135.63
Philadelphia Semiconductor Index	100	128.38	124.01	169.42	234.20	215.91

Holders

The approximate number of record holders of our outstanding common stock as of February 15, 2019 was 71. This number does not include beneficial owners for whom shares are held by nominees in street name.

Dividends

We do not intend to pay any cash dividends on our common stock in the foreseeable future. We anticipate that we will retain all of our future earnings for use in the development of our business and for general corporate purposes. Any determination to pay dividends in the future will be at the discretion of our Board of Directors.

Issuer Purchases of Equity Securities

On October 7, 2011, our Board of Directors adopted a stock repurchase program whereby we were authorized, subject to prevailing market conditions and other factors, to repurchase up to $35.0 million of our outstanding common stock. Our Board of Directors extended and increased the program by an additional $25.0 million in August 2012, for a maximum aggregate repurchase amount under the original program of up to $60.0 million. On July 30, 2013, we announced that our Board of Directors approved a new stock repurchase program under which we are authorized to repurchase up to $100.0 million of our common stock. The new stock repurchase program was effective August 5, 2013 through December 15, 2014, and replaced the original stock repurchase program. The stock repurchase program did not require that we purchase a minimum amount of shares of our common stock and may be commenced, suspended, resumed or terminated at any time without notice. The timing and extent of any repurchases were dependent upon prevailing market conditions, the trading price of the Company's common stock and other factors, and subject to contractual restrictions and restrictions under applicable law and regulations. As of December 31, 2013, we had repurchased 6,578,765 shares of our common stock in the open market under these programs at an aggregate cost of $90.9 million. In March 2014, our Board of Directors suspended the stock repurchase program indefinitely pending the completion of the independent investigation commenced by our Audit Committee in January 2014, and the stock repurchase program expired by its terms on December 15, 2014. Accordingly, we did not repurchase any shares under the stock repurchase program during the period from 2014 to 2016.

In January 2017, in connection with the offering of our Exchangeable Notes, our Board of Directors adopted a stock repurchase program, under which we were permitted to repurchase up to $15.0 million of our outstanding common stock, of which $11.4 million was used at the time of the offering. In December 2018 and January 2019, we repurchased an aggregate of 560,192 shares of our common stock in the open market under the program at an aggregate cost of $3.6 million. This represents the remaining portion of the stock repurchase program that was authorized by our Board of Directors at the time of the offering of our Exchangeable Notes in January 2017. The following table details our repurchases of our outstanding common stock from October 1, 2018 through December 31, 2018:

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program(1)	Approximate dollar value of shares that may yet be purchased under the Program
October 1, 2018—October 31, 2018	—	—	—	$3,598,930.60
November 1, 2018—November 30, 2018	—	—	—	$3,598,930.60
December 1, 2018—December 31, 2018	198,204	$6.32	198,204	$2,346,499.46
Total:	198,204		198,204	

(1) On January 10, 2017, we announced that our Board of Directors had authorized a stock repurchase program covering the repurchase of up to $15.0 million of shares of our outstanding common stock in open market, privately negotiated or other transactions. The stock repurchase program does not have an expiration date and can be discontinued, suspended, resumed or terminated at any time by our Board of Directors without notice. Whether we make any repurchases will depend on many factors, including but not limited to our business and financial performance, the business and market conditions at the time, including the price of our shares, and other factors that management considers relevant.

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, 2018 and 2017 and for the years ended December 31, 2018, 2017 and 2016 from the audited consolidated financial statements of the Company included in this Report. We have derived the selected consolidated financial data as of December 31, 2016, 2015 and 2014 and for the years ended December 31, 2015 and 2014 from the historical 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, 2018(1)	Year Ended December 31, 2017(1)	Year Ended December 31, 2016(1)(2)	Year Ended December 31, 2015(1)	Year Ended December 31, 2014(1)
	(In millions, except per share data)				
Statements of Operations Data:					
Net sales	$ 750.9	$ 679.7	$ 688.0	$ 633.7	$ 698.2
Cost of sales	552.8	491.8	531.7	498.8	545.4
Gross profit	198.1	187.9	156.2	134.9	152.9
Selling, general and administrative expenses	72.6	81.8	83.5	94.4	127.0
Research and development expenses	78.0	70.5	72.2	83.4	92.8
Restructuring, impairment and other charges (gain), net	—	(17.0)	(6.5)	—	10.3
Early termination charges	—	13.4	4.2	—	—
Operating income (loss) from continuing operations	47.4	39.2	2.7	(42.9)	(77.1)
Interest expense	(22.3)	(21.6)	(16.2)	(16.3)	(16.8)
Foreign currency gain (loss), net	(24.4)	65.5	(15.4)	(42.5)	(24.7)
Loss on early extinguishment of long-term borrowings, net	(0.2)	—	—	—	—
Others, net	0.3	2.9	3.0	1.8	2.9
	(46.7)	46.9	(28.6)	(57.0)	(38.6)
Income (loss) from operations before income taxes	0.7	86.1	(25.9)	(100.0)	(115.7)
Income tax expenses (benefits)	4.6	1.2	3.7	(15.1)	1.5
Net income (loss)	$ (3.9)	$ 84.9	$ (29.6)	$ (84.9)	$ (117.2)
Per share data:					
Earnings (loss) per share	—				
Basic	$ (0.11)	$ 2.50	$ (0.85)	$ (2.47)	$ (3.44)
Diluted	$ (0.11)	$ 2.02	$ (0.85)	$ (2.47)	$ (3.44)
Weighted average number of shares					
Basic	34.470	33.943	34.834	34.381	34.056
Diluted	34.470	44.755	34.834	34.381	34.056

	Year Ended December 31, 2018(1)	Year Ended December 31, 2017(1)	Year Ended December 31, 2016(1)(2)	Year Ended December 31, 2015(1)	Year Ended December 31, 2014(1)
	(In millions, except per share data)				
Balance Sheet Data (at period end):					
Cash and cash equivalents	$ 132.4	$ 128.6	$ 83.4	$ 90.9	$ 102.4
Total assets(3)	583.2	558.8	442.0	474.1	523.4
Total indebtedness(3)(4)	303.6	303.4	221.1	220.4	219.7
Stockholders' equity (deficit)	(17.3)	(39.6)	(72.1)	(62.3)	(18.5)
Supplemental Data:					
Adjusted EBITDA(5)	$ 84.3	$ 78.7	$ 40.7	$ 0.8	$ 8.5
Adjusted Net Income (Loss)(6)	$ 27.1	$ 28.9	$ (4.5)	$ (26.7)	$ (38.1)

(1) The FASB issued the new revenue recognition standard through several Accounting Standards Updates that superseded the legacy revenue recognition requirements. The new revenue recognition standard became effective on January 1, 2018. As we adopted the new revenue standard using the modified retrospective method, which allowed the recognition of the cumulative effect of initially applying the new revenue standard as an adjustment to our equity as of January 1, 2018. The comparative prior period amounts were not restated and continued to be reported under the accounting standards in effect for such periods. For further description of the adoption of the new revenue standard, see "Item 8. Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Note 1—Business, Basis of Presentation and Summary of Significant Accounting Policies—Recently Adopted Accounting Pronouncements" in this Report.

(2) Certain charges related to the closure of our 6-inch fab and headcount reduction, previously included in selling, general and administrative expenses in the consolidated statements of operations for the year ended December 31, 2016, have been reclassified to restructuring, impairment and other charges (gain), net and early termination charges, respectively, to conform to the presentation for the year ended December 31, 2017.

(3) 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. As of December 31, 2015 and December 31, 2014, $3.8 million and $4.3 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.

(4) Total indebtedness represents long-term borrowings.

(5) We define Adjusted EBITDA for the periods indicated as EBITDA (as defined below), adjusted to exclude (i) restructuring and other gain, net, (ii) early termination charges, (iii) equity-based compensation expense, (iv) foreign currency loss (gain), net, (v) derivative valuation loss (gain), net, (vi) restatement related expenses (gain), (vii) secondary offering expense, (viii) loss on early extinguishment of long-term borrowings, net and (ix) other indemnification costs and reimbursement. EBITDA for the periods indicated is defined as net income (loss) before interest expense, net, income tax expenses (benefits) 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 Income (Loss)."

(6) We define Adjusted Net Income (Loss) for the periods indicated as net income (loss), adjusted to exclude (i) restructuring and other gain, net, (ii) early termination charges, (iii) equity-based compensation expense, (iv) foreign currency loss (gain), net, (v) derivative valuation loss (gain), net, (vi) restatement related expenses (gain), (vii) secondary offering expense, (viii) loss on early extinguishment of long-term borrowings, net and (ix) other indemnification costs and reimbursement. This is a non-US GAAP financial measure and is discussed under "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Explanation and Reconciliation of Non-US GAAP measures—Adjusted EBITDA and Adjusted Net Income (Loss)."

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 designer and manufacturer of analog and mixed-signal semiconductor platform solutions for communications, IoT, consumer, industrial and automotive applications. We provide technology platforms for analog, mixed-signal, power, high voltage, non-volatile memory, and RF applications. We have a proven record with about 40 years of operating history, a portfolio of approximately 3,000 registered patents and pending applications and extensive engineering and manufacturing process expertise.

Our Foundry Services Group provides specialty analog and mixed-signal foundry services mainly for fabless and IDM semiconductor companies that primarily serve communications, IoT, consumer, industrial and automotive 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 rigid and flexible panel displays, and mobile, automotive applications and home appliances. Our Power Solutions products include discrete and integrated circuit solutions for power management in communications, consumer, computing 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.

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 communications, IoT, consumer, industrial and automotive 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 worldwide customer base, 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 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 organic light emitting diodes (OLED) display driver ICs in our internal manufacturing facilities. As we expanded our design capabilities to products that require lower geometries unavailable at our existing manufacturing facilities, we began outsourcing manufacturing of certain OLED display driver ICs to an external foundry from the second half of 2015. This additional source of manufacturing is an increasingly important part of our supply chain management. By outsourcing manufacturing of advanced OLED 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 manufacturing facilities and external foundries, we apply our unique OLED process patents as well as other intellectual property, proprietary process design kits and custom design-flow methodologies.

In our previous public filings, we had used a term "active matrix organic light emitting diodes (AMOLED)" that described a display technology used in certain display driver ICs that we had designed and manufactured in our internal and external foundries. Beginning in the second quarter of 2017, we have used the term "OLED" instead of the term "AMOLED" in our public filings in order to be consistent with commonly accepted industry naming practices for this product category. There is no change to the products that we previously referred to as AMOLED display driver ICs.

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.

We are in a period of weaker demand from our foundry customers in part as a result of recent softening global market conditions, including macroeconomic uncertainties. This, together with significantly lower than expected utilization, among other factors will adversely impact our Foundry Services Group gross margin and other operating results, and such impact likely will be material. We are also currently evaluating a number of options to optimize our foundry operations and expense structure with an intent toward maximizing shareholder value.

On February 14, 2019, we announced that we have undertaken a strategic evaluation of our Foundry Services Group business and fabrication facility located in Cheongju ("Fab 4"), the larger of our two 8" manufacturing facilities. Fab 4 is an analog and mixed signal fab that produces approximately 73% of our total capacity, and is used primarily to meet wafer demand from customers of our Foundry Services Group that rely on outside suppliers. The strategic evaluation is expected to include a range of possible options, including, but not limited to, joint ventures, strategic partnerships as well as M&A possibilities. We have engaged J.P. Morgan Securities LLC as our financial advisor to assist in the evaluation. It is possible that the announced strategic evaluation of our Foundry Services Group business and Fab 4 could adversely impact foundry loadings and Company margins.

Recent Developments

Repurchase of Long-term Borrowings

In December 2018, we repurchased a principal amount of $0.5 million and $1.6 million of the 2021 Notes and the Exchangeable Notes, respectively. As a result, we recorded a $0.2 million net loss as early extinguishment loss on our consolidated statements of operations for the year ended December 31, 2018.

Water Treatment Facility Arrangement

On June 29, 2018, we entered into an arrangement whereby we acquired a water treatment facility to support our fabrication facility in Gumi, Korea from SK hynix for $4.2 million, and sold it for $4.2 million to a third party management company that we have engaged to run the facility for a 10-year term. This arrangement is accounted for as a financing due to our Korean subsidiary's continuing involvement with the facility. As a result, on the acquisition date, we recorded the water treatment facility of $4.2 million as property, plant and equipment, net, which is depreciated over its useful life. We also recorded the related liabilities of $0.6 million as other current liabilities and $3.6 million as other non-current liabilities, which relates to the financing and service portion of the arrangement and is amortized using the effective interest method over the contract period.

Segment Change

In January 2018, as part of our ongoing portfolio optimization effort to realign business processes and streamline our organizational structure, we transferred a portion of our non-OLED display solutions business from our Standards Products Group to our Foundry Services Group. The transferred non-OLED display business has technical and business characteristics more closely aligned with our Foundry Services business than with our Standard Products business, which resided within our Display solutions business line primarily as a result of a long standing customer relationship established in the past. The transferred non-OLED display business represented $33.0 million of net sales for the year ended December 31, 2018. The corresponding non-OLED display business represented $30.3 million and $25.2 million of net sales for the years ended December 31, 2017 and 2016, respectively.

Tax Audit

In September 2017, MagnaChip Semiconductor Ltd. ("MSK"), our Korean operating subsidiary, was notified that the Korean National Tax Service (the "KNTS") would be examining the income- and non-income-based taxes of MSK for its 2012 to 2014 tax years. The KNTS had conducted its audit, primarily focusing on non-income-based value added tax ("VAT") transactions associated with the periods with respect to which we previously restated our financial statements as a result of the independent investigation commenced by our Audit Committee in January 2014 (the "Restatement").

As a result, the aggregate tax and penalty assessment by the KNTS was $6.0 million, of which $3.3 million had already been accrued by us in our financial statements in connection with the Restatement filed in 2015. Such amount also included approximately $0.5 million related to employee withholding amounts and associated penalties, and to the extent any such tax obligation was that of MSK's employees. In addition, KNTS assessed an administrative fine of $2.0 million in connection with the above-described tax audit.

In December 2017, the KNTS concluded that no criminal charges would be brought against any current officers or directors of MSK or MSK itself. As a result, we took a charge of $4.2 million in the fourth quarter of 2017 related to this additional tax assessment and associated penalties and administrative fine. We recorded the $0.5 million related to employee withholding amounts as other receivables in our consolidated balance sheets as of December 31, 2017, as we expected to obtain reimbursement of the applicable amounts from those employees. Of the $0.5 million, we have collected $0.1 million and established an allowance of $0.4 million and recorded it as selling, general and administrative expense for the three months ended September 30, 2018.

Secondary offering

On August 15, 2017, certain of our stockholders that are affiliates of Avenue Capital Management II, L.P. (the "Selling Stockholders") closed an underwritten registered public offering of 4,088,978 shares of our common stock at a price per share of $11.10. We did not receive any proceeds from the sale of our common stock by the Selling Stockholders, but paid certain expenses in connection with such secondary offering pursuant to an existing contractual arrangement with the Selling Stockholders.

Events associated with the closure of our 6-inch fab and reduction of workforce

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 the related deposit of $8.2 million, net of certain direct selling costs. 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.

As of April 29, 2016, 169 employees elected to resign under the terms of the Program. 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 other termination benefits under the Program, which were 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 recorded the $18.2 million as restricted cash in our consolidated balance sheets as of December 31, 2016 as we were obligated to perform certain removal construction work that was expected to be completed by the end of March 2017. During the first quarter of 2017, we completed all removal construction work necessary to transfer the title of the building, and the $18.2 million of restricted cash was fully released.

As of February 22, 2017, our Board of Directors approved the implementation of a headcount reduction plan (the "Headcount Reduction Plan"). As of June 30, 2017, 352 employees elected to resign from the Company during the period in which the Headcount Reduction Plan was offered. The Headcount Reduction Plan is expected to result in estimated annual cost savings of approximately $24 million. The total cash cost of approximately $31 million has been fully paid. We recorded in our consolidated statement of operations $11.1 million and $2.3 million termination related charges as "early termination charges" for the three months ended March 31, 2017 and June 30, 2017, respectively. The remaining total cost relates to statutory severance benefits, which are required by law and had already been fully accrued in our financial statements.

Issuance of Exchangeable Senior Notes and Stock Repurchase

As of January 17, 2017, we closed the offering (the "Exchangeable Notes Offering") by our Luxembourg subsidiary, MagnaChip Semiconductor S.A., of $86.25 million aggregate principal amount of its 5.00% Exchangeable Senior Notes due 2021 (the "Exchangeable Notes"), reflecting the full exercise of the initial purchasers' option to purchase additional Exchangeable Notes. We used a portion of the net proceeds from the Exchangeable Notes Offering to repurchase 1,795,444 shares of our common stock under our stock repurchase program, which was authorized by our board of directors on January 10, 2017, at an aggregate cost of $11.4 million.

Sale of Sensor Business

In March 2017, we sold our sensor product business, which was included in and reported as part of the Display Solutions line of our Standard Products Group, to a third party for proceeds of $1.3 million, in an effort to improving our overall profitability. We recorded a $0.4 million gain from this sale after deducting the book values of certain assets transferred to the buyer.

Restatement

In January 2014, our Audit Committee commenced an independent investigation that resulted in the Restatement. In March, 2014, we voluntarily reported to the SEC that our Audit Committee had determined that we incorrectly recognized revenue on certain transactions and as a result would restate our financial statements, and that our Audit Committee had commenced an independent investigation.

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 8. Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Note 18. Commitments and Contingencies" 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 8. Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Note 18. Commitments and Contingencies" 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.

On May 1, 2017, the SEC announced that it had reached a final settlement with us, resolving the SEC's investigation, as detailed in "Item 8. Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Note 18. Commitments and Contingencies" in this Report. In connection therewith, we have consented, without admitting or denying the SEC's findings, to the entry of an administrative order by the SEC directing that we cease and desist from committing or causing any violations of certain provisions of the federal securities laws and related SEC regulations. The SEC's administrative order was entered on May 1, 2017. The SEC imposed a monetary penalty of $3.0 million on us. In the three months ended March 31, 2017, we established a reserve in that amount for the potential settlement of this matter and recorded it as selling, general and administrative expense in the consolidated statements of operations for the three months ended March 31, 2017. The reserved monetary penalty of $3.0 million was paid to the SEC during the three months ended June 30, 2017.

As a result of the Restatement, we 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 recorded Restatement related costs of $10.3 million for the year ended December 31, 2017, which included tax assessment, and associated penalties of $4.3 million, primarily related to non-income-based VAT transactions in the Restatement periods, compared to $7.0 million of Restatement related costs for the year ended December 31, 2016. For the three months March 31, 2018, the reversal of a $0.8 million accrual related to certain legal fees, incurred in prior periods and reimbursed by insurers in the current quarter, was recorded as a Restatement related gain.

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.

In January 2018, as part of our ongoing portfolio optimization effort to realign business processes and streamline our organizational structure, we transferred a portion of our non-OLED display solutions business from our Standards Products Group to our Foundry Services Group. The transferred non-OLED display business has technical and business characteristics more closely aligned with our Foundry Services business than with our Standard Products business, which resided within our Display solutions business line primarily as a result of a long standing customer relationship established many years ago. We recast comparative segment financial information to conform to this current period change.

- ***Foundry Services Group:*** Our Foundry Services Group provides specialty analog and mixed-signal foundry services to fabless semiconductor companies and IDMs that serve communications, IoT, consumer, industrial and automotive 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 508 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. For the year ended December 31, 2018, our Foundry Services Group business represented 43.3% of our net sales and its gross profit was $82.6 million. For the years ended December 31, 2017 and 2016, our Foundry Services Group business represented, on an adjusted basis after recasting, 51.6% and 43.5% of our net sales, respectively, and its gross profit was $101.8 million and $73.1 million, respectively, as adjusted for the segment change described above.

- ***Standard Products Group:*** Our Standard Products Group includes our Display Solutions and Power Solutions business lines. Our Display Solutions products include source, gate drivers, timing controllers, and one-chip integrated solutions that cover a wide range of panel displays used in ultra high definition (UHD), high definition (HD), light emitting diode (LED), 3D and OLED televisions public displays, notebooks, mobile communications, entertainment devices and automotive applications. Our Display Solutions products support the industry's most advanced display technologies, such as OLEDs, 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 OLED display driver IC products. Our current portfolio of OLED solutions address a wide range of resolutions ranging from HD to Wide Quad High 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 OLED industry. 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), 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. For the year ended December 31, 2018, our Standard Products Group, which includes our Display Solutions and Power Solutions business lines, represented 56.7% of our net sales and its gross profit was $115.5 million. For the years ended December 31, 2017 and 2016, our Standard Products Group business represented, on an adjusted basis after recasting, 48.4% and 56.4% of our net sales, respectively, and its gross profit was $85.9 million and $83.5 million, respectively, as adjusted for the segment change described above

Explanation and Reconciliation of Non-US GAAP Measures

Adjusted EBITDA and Adjusted Net Income (Loss)

We use the terms Adjusted EBITDA and Adjusted Net Income (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 and other gain, net, (ii) early termination charges, (iii) equity-based compensation expense, (iv) foreign currency loss (gain), net, (v) derivative valuation loss (gain), net, (vi) restatement related expenses (gain), (vii) secondary offering expense, (viii) loss on early extinguishment of long-term borrowings, net and (ix) other indemnification costs and reimbursement. EBITDA for the periods indicated is defined as net income (loss) before interest expense, net, income tax expenses, 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.

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

	Year Ended December 31, 2018	Year Ended December 31, 2017	Year Ended December 31, 2016
		(In millions)	
Net Income (Loss)	$ (3.9)	$ 84.9	$(29.6)
Interest expense, net	20.4	20.5	16.0
Income tax expenses	4.6	1.2	3.7
Depreciation and amortization	32.0	28.1	25.4
EBITDA	$53.2	$134.7	$ 15.5
Adjustments:			
Restructuring and other gain, net(a)	—	(17.0)	(5.5)
Early termination charges(b)	—	13.4	4.2
Equity-based compensation expense(c)	4.4	2.3	3.8
Foreign currency loss (gain), net(d)	24.4	(65.5)	15.4
Derivative valuation loss (gain), net(e)	2.4	(0.2)	0.3
Restatement related expenses (gain)(f)	(0.8)	10.3	7.0
Secondary offering expenses(g)	—	0.7	—
Loss on early extinguishment of long-term borrowings, net(h)	0.2	—	—
Other indemnification costs and reimbursement(i)	0.4	—	—
Adjusted EBITDA	$84.3	$ 78.7	$ 40.7

(a) For the year ended December 31, 2017, this adjustment eliminates the $16.6 million restructuring gain on sale of a building in connection with the closure of our 6-inch fab and the $0.4 million gain on sale of our sensor business. For the year ended December 31, 2016, this adjustment eliminates the $7.8 million restructuring gain on sale of machinery in connection with the closure of our 6-inch fab, net of $2.3 million training and transition costs related to our 6-inch fab employees.

(b) This adjustment eliminates the charges related to the reduction of workforce through the Headcount Reduction Plan in the first half of 2017 and the Program in the second quarter of 2016. As these termination related charges are recorded as a result of implementing the company-wide headcount reduction and are not

Form 10-K

expected to represent ongoing operating expenses to us, we believe our operating performance results are more usefully compared if these expenses are excluded.

(c) This adjustment eliminates the impact of non-cash equity-based compensation expenses. Although we expect to incur non-cash equity-based compensation expenses in the future, 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.

(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 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 US 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, and certain other expenses. For 2018, this adjustment eliminates the reversal of a $0.8 million accrual related to certain legal fees incurred in prior periods and reimbursed by insurers in the first quarter of 2018. For 2017, this adjustment includes the $3.0 million civil penalty imposed by the SEC and the $4.3 million of the additional tax assessment and associated penalties, primarily related to non-income-based VAT transactions in the Restatement periods, administrative fine and related legal fees. As these 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.

(g) This adjustment eliminates expenses incurred for the secondary offering by the Selling Stockholders primarily in the third quarter of 2017.

(h) This adjustment eliminates expenses related to the repurchase of a portion of the 2021 Notes and the Exchangeable Notes in December 2018.

(i) This adjustment eliminates a $0.4 million legal expense related to the indemnification of a former employee. As the legal expense for the former employee is borne by us under a negotiated separation agreement, we do not believe that this charge is indicative of our core operating performance and has been excluded for comparative purposes.

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

- we use Adjusted Net Income (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 Income (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.

Adjusted Net Income (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 income, as determined in accordance with US GAAP. We encourage you to evaluate each adjustment and the reasons we consider them appropriate. Other companies in our industry may calculate Adjusted Net Income (Loss) differently than we do, limiting its usefulness as a comparative measure. In addition, in evaluating Adjusted Net Income (Loss), you should be aware that in the future we may incur expenses similar to the adjustments in this presentation. We define Adjusted Net Income (Loss) for the periods indicated as net income (loss), adjusted to exclude (i) restructuring and other gain, net, (ii) early termination charges, (iii) equity-based compensation expense, (iv) foreign currency loss (gain), net, (v) derivative valuation loss (gain), net, (vi) restatement related expenses (gain), (vii) secondary offering expense, (viii) loss on early extinguishment of long-term borrowings, net and (ix) other indemnification costs and reimbursement.

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

	Year Ended December 31, 2018	Year Ended December 31, 2017	Year Ended December 31, 2016
		(In millions)	
Net Income (Loss)	$ (3.9)	$ 84.9	$(29.6)
Adjustments:			
Restructuring and other gain, net(a)	—	(17.0)	(5.5)
Early termination charges(b)	—	13.4	4.2
Equity-based compensation expense(c)	4.4	2.3	3.8
Foreign currency loss (gain), net(d)	24.4	(65.5)	15.4
Derivative valuation loss (gain), net(e)	2.4	(0.2)	0.3
Restatement related expenses (gain)(f)	(0.8)	10.3	7.0
Secondary offering expenses(g)	—	0.7	—
Loss on early extinguishment of long-term borrowings, net(h)	0.2	—	—
Other indemnification costs and reimbursement(i)	0.4	—	—
Adjusted Net Income (Loss)	$27.1	$ 28.9	$ (4.5)

(a) For the year ended December 31, 2017, this adjustment eliminates the $16.6 million restructuring gain on sale of a building in connection with the closure of our 6-inch fab and the $0.4 million gain on sale of our sensor business. For the year ended December 31, 2016, this adjustment eliminates the $7.8 million restructuring gain on sale of machinery in connection with the closure of our 6-inch fab, net of $2.3 million training and transition costs related to our 6-inch fab employees.

(b) This adjustment eliminates the charges related to the reduction of workforce through the Headcount Reduction Plan in the first half of 2017 and the Program in the second quarter of 2016. As these termination related charges are recorded as a result of implementing the company-wide headcount reduction and are not expected to represent ongoing operating expenses to us, we believe our operating performance results are more usefully compared if these expenses are excluded.

(c) This adjustment eliminates the impact of non-cash equity-based compensation expenses. Although we expect to incur non-cash equity-based compensation expenses in the future, 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.

(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 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 US 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, and certain other expenses. For 2018, this adjustment eliminates the reversal of a $0.8 million accrual related to certain legal fees incurred in prior periods and reimbursed by insurers in the first quarter of 2018. For 2017, this adjustment includes the $3.0 million civil penalty imposed by the SEC and the $4.3 million of the additional tax assessment and associated penalties, primarily related to non-income-based VAT transactions in the Restatement periods, administrative fine and related legal fees. As these 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.

(g) This adjustment eliminates expenses incurred for the secondary offering by the Selling Stockholders primarily in the third quarter of 2017.

(h) This adjustment eliminates expenses related to the repurchase of a portion of the 2021 Notes and the Exchangeable Notes in December 2018.

(i) This adjustment eliminates a $0.4 million legal expense related to the indemnification of a former employee. As the legal expense for the former employee is borne by us under a negotiated separation agreement, we do not believe that this charge is indicative of our core operating performance and has been excluded for comparative purposes.

There was no tax impact from the adjustments to net income to calculate our Adjusted Net Income (Loss) for the years ended December 31, 2018, 2017 and 2016 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 income (loss) used to calculate Adjusted Net Income (Loss) were applied consistently to the periods presented.

Adjusted Net Income (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 Income (Loss) does not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted Net Income (Loss) does not consider the potentially dilutive impact of issuing equity-based compensation to our management team and employees;
- Adjusted Net Income (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 Income (Loss) differently than we do, limiting its usefulness as a comparative measure.

Because of these limitations, Adjusted Net Income (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 Income (Loss) only supplementally.

Our Adjusted EBITDA and Adjusted Net Income for the year ended December 31, 2018 were $84.3 million and $27.1 million, respectively. Our Adjusted EBITDA and Adjusted Net Income for the year ended December 31, 2017 were $78.7 million and $28.9 million, respectively. Our Adjusted EBITDA and Adjusted Net Loss for the year ended December 31, 2016 were $40.7 million and $4.5 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 is in the United States, Europe and the Asia Pacific region. Our net sales from All other consist principally of the disposal of scrap materials.

Prior to the adoption of the new revenue standard effective on January 1, 2018, we had historically recognized 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. After the adoption of the new revenue standard effective on January 1, 2018, we recognize revenue over time for those foundry products without alternative use where we have an enforceable right to payment for the related foundry services completed to date. As we adopted the new revenue standard under the modified retrospective method, we have not changed the comparative information in our interim consolidated financial statements for the year ended December 31, 2017. Such comparative information continues to be reported under the accounting standards in effect for that period. See "Item 8. Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Note 1—Business, Basis of Presentation and Significant Accounting Policies—Basis of Presentation and Recent Accounting Pronouncements" in this Report for further discussion. For the years ended December 31, 2018 and 2017, we sold products to 370 and 343 customers, respectively, and our net sales to our ten largest customers represented 61% and 57% of our net sales, respectively. We have a combined production capacity of approximately 113,000 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 increase significantly.

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, 2018, 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.

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 of our Foundry Services Group are for process development that serves as a common technology platform for all of our product lines. For our Standard Products Group, the majority of research and development expenses are material-related costs for OLED display driver IC product development involving fine processes.

Interest Expense. Our interest expense was incurred primarily under our 2021 Notes and our Exchangeable 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-US currencies, principally the Korean won, and we expect that this will remain true in the future. Because we report our results of operations in US dollars converted from our non-US revenues and expenses based on monthly average exchange rates, changes in the exchange rate between the Korean won and the US 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 US dollars relative to Korean won, depreciation in the US 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 US 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 US 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 US dollars. As of December 31, 2018, the outstanding intercompany loan balance including accrued interest between our Korean subsidiary and our Dutch subsidiary was $666.6 million. This amount included an intercompany loan of $75.0 million executed during the three months ended March 31, 2017, which was used to transfer a portion of the net proceeds from the offering of the Exchangeable Notes from our Luxembourg subsidiary to our Dutch subsidiary, and then to our Korean subsidiary. 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 US 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 US dollars. This gain or loss results from fluctuations in the exchange rate between the Korean won and US dollar.

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

We are subject to income- or non-income-based tax examinations by tax authorities of the US, Korea and multiple other foreign jurisdictions, where applicable, for all open tax years. Significant estimates and judgments are required in determining our worldwide provision for income- or non-income based 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. See "Item 8, Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Note 16. Income Taxes" included elsewhere in this Report.

Capital Expenditures. We primarily invest in manufacturing equipment, software design tools and other tangible assets mainly for fabrication facility maintenance, 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 mainly include our payments for the purchase of property, plant and equipment.

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.

Results of Operations

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

	Year Ended December 31, 2018		Year Ended December 31, 2017 (As adjusted)		Year Ended December 31, 2016 (As adjusted)	
	Amount	% of net sales	Amount	% of net sales	Amount	% of net sales
			(In millions)			
Consolidated statements of operations data:						
Net sales	$750.9	100.0%	$679.7	100.0%	$688.0	100.0%
Cost of sales	552.8	73.6	491.8	72.4	531.7	77.3
Gross profit	198.1	26.4	187.9	27.6	156.2	22.7
Selling, general and administrative expenses	72.6	9.7	81.8	12.0	83.5	12.1
Research and development expenses	78.0	10.4	70.5	10.4	72.2	10.5
Restructuring and other gain, net	—	—	(17.0)	(2.5)	(6.5)	(0.9)
Early termination charges	—	—	13.4	2.0	4.2	0.6
Operating income (loss)	47.4	6.3	39.2	5.8	2.7	0.4
Interest expense	(22.3)	(3.0)	(21.6)	(3.2)	(16.2)	(2.4)
Foreign currency gain (loss), net	(24.4)	(3.3)	65.5	9.6	(15.4)	(2.2)
Loss on early extinguishment of long-term borrowings, net	(0.2)	(0.0)	—	—	—	—
Others, net	0.3	0.0	2.9	0.4	3.0	0.4
	(46.7)	(6.2)	46.9	6.9	(28.6)	(4.2)
Income (loss) before income taxes	0.7	0.1	86.1	12.7	(25.9)	(3.8)
Income tax expenses (benefits)	4.6	0.6	1.2	0.2	3.7	0.5
Net income (loss)	$ (3.9)	(0.5)%	$ 84.9	12.5%	$ (29.6)	(4.3)%
Net Sales:						
Foundry Services Group	$325.3	43.3%	$350.4	51.6%	$299.1	43.5%
Standard Products Group						
Display Solutions	256.1	34.1	179.2	26.4	256.8	37.3
Power Solutions	169.3	22.5	149.8	22.0	131.5	19.1
Total Standard Products Group	425.4	56.7	329.1	48.4	388.3	56.4
All other	0.2	0.0	0.2	0.0	0.6	0.1
Total net sales	$750.9	100.0%	$679.7	100.0%	$688.0	100.0%

Form 10-K

Results of Operations—Comparison of Years Ended December 31, 2018 and 2017

The following table sets forth consolidated results of operations for the years ended December 31, 2018 and 2017:

	Year Ended December 31, 2018		Year Ended December 31, 2017		
	Amount	% of Net Sales	Amount	% of Net Sales	Change Amount
			(In millions)		
Net sales	$750.9	100.0%	$679.7	100.0%	$ 71.2
Cost of sales	552.8	73.6	491.8	72.4	61.0
Gross profit	198.1	26.4	187.9	27.6	10.2
Selling, general and administrative expenses	72.6	9.7	81.8	12.0	(9.1)
Research and development expenses	78.0	10.4	70.5	10.4	7.5
Restructuring and other gain, net	—	—	(17.0)	(2.5)	17.0
Early termination charges	—	—	13.4	2.0	(13.4)
Operating income	47.4	6.3	39.2	5.8	8.2
Interest expense	(22.3)	(3.0)	(21.6)	(3.2)	(0.7)
Foreign currency gain (loss), net	(24.4)	(3.3)	65.5	9.6	(90.0)
Loss on early extinguishment of long-term borrowings, net	(0.2)	(0.0)	—	—	(0.2)
Others, net	0.3	0.0	2.9	0.4	(2.6)
	(46.7)	(6.2)	46.9	6.9	(93.5)
Income (loss) before income taxes	0.7	0.1	86.1	12.7	(85.3)
Income tax expenses	4.6	0.6	1.2	0.2	3.5
Net income (loss)	$ (3.9)	(0.5)	$ 84.9	12.5	$(88.8)

Results by segment

	Year Ended December 31, 2018		Year Ended December 31, 2017 (As adjusted)		
	Amount	% of Net Sales	Amount	% of Net Sales	Change Amount
			(In millions)		
Net Sales					
Foundry Services Group	$325.3	43.3%	$350.4	51.6%	$(25.1)
Standard Products Group					
Display Solutions	256.1	34.1	179.2	26.4	76.9
Power Solutions	169.3	22.5	149.8	22.0	19.4
Total Standard Products Group	425.4	56.7	329.1	48.4	96.3
All other	0.2	0.0	0.2	0.0	(0.0)
Total net sales	$750.9	100.0%	$679.7	100.0%	$ 71.2

	Year Ended December 31, 2018		Year Ended December 31, 2017 (As adjusted)		
	Amount	% of Net Sales	Amount	% of Net Sales	Change Amount
			(In millions)		
Gross Profit					
Foundry Services Group	$ 82.6	25.4%	$101.8	29.0%	$(19.2)
Standard Products Group	115.5	27.1	85.9	26.1	29.6
All other	0.0	21.2	0.2	100.0	(0.2)
Total gross profit	$198.1	26.4%	$187.9	27.6%	$ 10.2

Net Sales

Net sales were $750.9 million for the year ended December 31, 2018, a $71.2 million, or 10.5%, increase compared to $679.7 million for the year ended December 31, 2017. This increase was primarily attributable to an increase in revenue from our Standard Products Group, which was offset in part by a decrease in revenue from our Foundry Services Group.

Foundry Services Group. Net sales from our Foundry Services Group segment were $325.3 million for the year ended December 31, 2018, a $25.1 million, or 7.2%, decrease compared to net sales of $350.4 million for the year ended December 31, 2017. The decrease was primarily attributable to a decrease in demand of low margin product sales from a global power management IC foundry customer and a decrease in demand from a customer serving the low- to mid-range mobile phone market. This decrease was offset in part by an increase in sales of certain battery charger related products from a global power management IC foundry customer.

Standard Products Group. Net sales from our Standard Products Group segment were $425.4 million for the year ended December 31, 2018, a $96.3 million, or 29.3%, increase compared to $329.1 million for the year ended December 31, 2017. This increase was primarily attributable to an increase in revenue related to an improvement in mobile OLED display driver ICs due to the introduction of new OLED smartphones by Chinese manufacturers and higher demand for premium power products such as high-end MOSFETs and IGBTs primarily for TV and industrial applications. This increase was offset in part by a strategic reduction of our lower margin LCD business.

All Other. All other net sales remained constant at $0.2 million for each of the years ended December 31, 2018 and 2017.

Gross Profit

Total gross profit was $198.1 million for the year ended December 31, 2018 compared to $187.9 million for the year ended December 31, 2017, a $10.2 million, or 5.4%, increase. Gross profit as a percentage of net sales for the year ended December 31, 2018 decreased to 26.4% compared to 27.6% for the year ended December 31, 2017, primarily due to a decrease in gross profit as a percentage of net sales from our Foundry Services Group, which was offset in part by an increase in gross profits as a percentage of net sales from our Standard Products Group.

Foundry Services Group. Gross profit from our Foundry Services Group segment was $82.6 million for the year ended December 31, 2018, a $19.2 million, or 18.9%, decrease compared to $101.8 million for the year ended December 31, 2017. Gross profit as a percentage of net sales for the year ended December 31, 2018 decreased to 25.4% compared to 29.0% for the year ended December 31, 2017. The decrease in gross profit as a percentage of net sales was mainly attributable to a lower utilization rate, which was affected in part by a softening global market conditions, including macroeconomic uncertainties, and a strategic reduction of low margin LCD business. This decrease was also attributable to an unfavorable product mix and an increase in raw wafer prices.

Standard Products Group. Gross profit from our Standard Products Group segment was $115.5 million for the year ended December 31, 2018, a $29.6 million, or 34.4%, increase from $85.9 million for the year ended December 31, 2017. Gross profit as a percentage of net sales for the year ended December 31, 2018 increased to 27.1% compared to 26.1% for the year ended December 31, 2017. The increase in both gross profit and gross profit margin was primarily attributable to a favorable product mix from an increase in sales of mobile OLED display driver ICs.

All Other. All other gross profit was $0.04 million for the year ended December 31, 2018 and $0.2 million for the year ended December 31, 2017.

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, 2018 and 2017:

	Year Ended December 31, 2018		Year Ended December 31, 2017		
	Amount	% of Net Sales	Amount	% of Net Sales	Change Amount
			(In millions)		
Korea	$282.5	37.6%	$279.9	41.2%	$ 2.6
Asia Pacific (other than Korea)	380.6	50.7	322.6	47.5	58.0
U.S.A.	37.5	5.0	35.1	5.2	2.4
Europe	47.8	6.4	41.1	6.0	6.7
Others	2.5	0.3	1.0	0.1	1.5
	$750.9	100.0%	$679.7	100.0%	$71.2

Net sales in Korea for the year ended December 31, 2018 increased from $279.9 million to $282.5 million compared to the year ended December 31, 2017, or by $2.6 million, or 0.9%, primarily due to higher sales of premium power product and an increase in revenue related to the introduction of new OLED display driver ICs, which was offset in part by a strategic reduction of low margin LCD business.

Net sales in the Asia Pacific for the year ended December 31, 2018 increased from $322.6 million to $380.6 million compared to the year ended December 31, 2017, or by $58.0 million, or 18.0%, primarily due to an increase in revenue related to increased sales to mobile OLED display driver ICs in connection with the introduction of new OLED smartphones. This increase was in part offset by a decrease in sales of certain products from a foundry customer serving the low- to mid-range mobile phone market, and a decrease in sales of certain low margin products from a global power management IC foundry customer.

Net sales in the United States for the year ended December 31, 2018 increased from $35.1 million to $37.5 million compared to the year ended December 31, 2017, or by $2.4 million, or 6.8%, primarily due to an increase in sales of certain products from a global power management IC foundry customer.

Net sales in Europe for the year ended December 31, 2018 increased from $41.1 million to $47.8 million compared to the year ended December 31, 2017, or by $6.7 million, or 16.4%, primarily due to an increase in sales of certain battery charger related products from a global power management IC foundry customer, which was offset in part by lower demand from a customer serving the high-end smartphone market.

Operating Expenses

Selling, General and Administrative Expenses. Selling, general and administrative expenses were $72.6 million, or 9.7% of net sales for the year ended December 31, 2018, compared to $81.8 million, or 12.0%

of net sales for the year ended December 31, 2017. The decrease of $9.1 million, or 11.2%, was primarily attributable to a $6.7 million decrease in professional fees, which were mainly comprised of legal and consulting services and a $4.2 million charge related to an additional tax assessment and associated penalties and an administrative fine as a result of the tax audit conducted by the KNTS which concluded in the fourth quarter of 2017. These decreases were offset in part by an increase in employee compensation, including issuance of equity-based compensation.

Research and Development Expenses. Research and development expenses were $78.0 million, or 10.4%, of net sales for the year ended December 31, 2018, compared to $70.5 million, or 10.4%, of net sales for the year ended December 31, 2017. The increase of $7.5 million, or 10.7%, was primarily attributable to an increase in development activities for new OLED products.

Restructuring and Other Gain. Restructuring and other gain of $17.0 million recorded for the year ended December 31, 2017 resulted from a $16.6 million restructuring gain on the sale of the building related to the closure of our 6-inch fab and a $0.4 million gain on sale of our sensor business.

Early Termination Charges. Early termination charges of $13.4 million for the year ended December 31, 2017 were recorded for the termination benefits payable to the employees affected under our Headcount Reduction Plan.

Operating Income

As a result of the foregoing, operating income increased by an $8.2 million in the year ended December 31, 2018 compared to the year ended December 31, 2017. As discussed above, the increase in operating income resulted from a $10.2 million increase in gross profit, a $9.1 million decrease in selling, general and administrative expenses and a $13.4 million decrease in early termination charges, which were partially offset by a $17.0 million decrease in restructuring and other gain and a $7.5 million increase in research development expenses.

Other Income (Expense)

Interest Expense. Interest expenses were $22.3 million and $21.6 million for the year ended December 31, 2018 and December 31, 2017, respectively.

Foreign Currency Gain (Loss), Net. Net foreign currency loss for the year ended December 31, 2018 was $24.4 million compared to net foreign currency gain of $65.5 million for the year ended December 31, 2017. The net foreign currency loss for the year ended December 31, 2018 was due to the depreciation in value of the Korean won relative to the US dollar during the period. The net foreign currency gain for the year ended December 31, 2017 was due to the appreciation in value of the Korean won relative to the US 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 US dollars, and is affected by changes in the exchange rate between the Korean won and the US dollar. As of December 31, 2018, the outstanding intercompany loan balance including accrued interest between our Korean subsidiary and our Dutch subsidiary was $666.6 million. 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.

Loss on Early Extinguishment of Long-Term Borrowings, Net. In December 2018, we repurchased a principal amount of $0.5 million and $1.6 million of the 2021 Notes and the Exchangeable Notes, respectively. In connection with these repurchases, we recognized a $0.2 million of net loss for the year ended December 31, 2018.

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, 2018 and December 31, 2017 were $0.3 million and $2.9 million, respectively.

Income Tax Expenses

We are subject to income taxes in the United States and many foreign jurisdictions and our effective tax rate is affected by changes in the mix of earnings between countries with differing tax rates. Our primary foreign operations are in Korea where the statutory tax rate applicable to us was approximately 24.2% in each of 2018 and 2017. Statutory tax rates for our foreign subsidiaries except those in Luxembourg, Netherlands and Korea, were less than the US federal statutory rate of 21.0%.

We recorded income tax expenses of $4.6 million and $1.2 million for the years ended December 31, 2018 and 2017, respectively. The increase in income tax expenses for the year ended December 31, 2018 was primarily attributable to taxable income generated by our Korean subsidiary combined with its ability to utilize net operating carryforwards up to 70% of the taxable income, and a decrease in our uncertain tax positions that resulted in a reduction of income tax expense for the year ended December 31, 2017. Our effective tax rate was 620.6% for the year ended December 31, 2018, as compared to 1.3% for the year ended December 31, 2017.

We make an ongoing assessment regarding the realization of US and non-US deferred tax assets. The valuation allowances at December 31, 2018 and 2017 were 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 Income

As a result of the foregoing, net income decreased by $88.8 million in the year ended December 31, 2018 compared to the year ended December 31, 2017. As discussed above, the decrease primarily resulted from a $90.0 million increase in foreign currency loss and a $3.5 million increase in income tax expenses, which was partially offset by an $8.2 million increase in operating income.

Results of Operations—Comparison of Years Ended December 31, 2017 and 2016

The following table sets forth consolidated results of operations for the years ended December 31, 2017 and 2016:

	Year Ended December 31, 2017		Year Ended December 31, 2016		
	Amount	% of Net Sales	Amount	% of Net Sales	Change Amount
			(In millions)		
Net sales	$679.7	100.0%	$688.0	100.0%	$ (8.3)
Cost of sales	491.8	72.4	531.7	77.3	(40.0)
Gross profit	187.9	27.6	156.2	22.7	31.7
Selling, general and administrative expenses	81.8	12.0	83.5	12.1	(1.8)
Research and development expenses	70.5	10.4	72.2	10.5	(1.7)
Restructuring and other charges (gain), net	(17.0)	(2.5)	(6.5)	(0.9)	(10.5)
Early termination charges	13.4	2.0	4.2	0.6	9.1
Operating income	39.2	5.8	2.7	0.4	36.5
Interest expense	(21.6)	(3.2)	(16.2)	(2.4)	(5.3)
Foreign currency gain (loss), net	65.5	9.6	(15.4)	(2.2)	80.9
Others, net	2.9	0.4	3.0	0.4	(0.1)
	46.9	6.9	(28.6)	(4.2)	75.5
Income (loss) before income taxes	86.1	12.7	(25.9)	(3.8)	112.0
Income tax expenses (benefits)	1.2	0.2	3.7	0.5	(2.6)
Net income (loss)	$ 84.9	12.5	$ (29.6)	(4.3)	$114.6

Results by segment

	Year Ended December 31, 2017 (As adjusted)		Year Ended December 31, 2016 (As adjusted)		
	Amount	% of Net Sales	Amount	% of Net Sales	Change Amount
			(In millions)		
Net Sales					
Foundry Services Group	$350.4	51.6%	$299.1	43.5%	$ 51.3
Standard Products Group					
Display Solutions	179.2	26.4	256.8	37.3	(77.6)
Power Solutions	149.8	22.0	131.5	19.1	18.4
Total Standard Products Group	329.1	48.4	388.3	56.4	(59.2)
All other	0.2	0.0	0.6	0.1	(0.4)
Total net sales	$679.7	100.0%	$688.0	100.0%	$ (8.3)

Form 10-K

	Year Ended December 31, 2017 (As adjusted)		Year Ended December 31, 2016 (As adjusted)		
	Amount	% of Net Sales	Amount	% of Net Sales	Change Amount
			(In millions)		
Gross Profit					
Foundry Services Group	$101.8	29.0%	$ 73.1	24.4%	$28.7
Standard Products Group	85.9	26.1	83.5	21.5	2.4
All other	0.2	100.0	(0.4)	(66.3)	0.6
Total gross profit	$187.9	27.6%	$156.2	22.7%	$31.7

Net Sales

Net sales were $679.7 million for the year ended December 31, 2017, an $8.3 million, or 1.2%, decrease compared to $688.0 million for the year ended December 31, 2016. This decrease was primarily attributable to a net decrease in revenue from our Standard Products Group, which was offset in part by an increase in revenue from our Foundry Services Group as described below.

Foundry Services Group. Net sales from our Foundry Services Group segment were $350.4 million for the year ended December 31, 2017, a $51.3 million, or 17.1%, increase compared to net sales of $299.1 million for the year ended December 31, 2016. The increase was primarily attributable to higher demand for our foundry services from certain customers serving the mid-range smartphone and consumer electronics markets and higher sales of certain products from a global power management IC foundry customer. These increases were partially offset by a net decrease in demand of our foundry services from a customer serving the high-end smartphone market.

Standard Products Group. Net sales from our Standard Products Group segment were $329.1 million for the year ended December 31, 2017, a $59.2 million, or 15.2%, decrease compared to $388.3 million for the year ended December 31, 2016. This substantial decrease was primarily due to a significant decrease in revenue related to our Display Solutions business line, partially offset by increase in revenue related to our Power Solutions business line as described below.

Net sales from our Display Solutions business line were $179.2 million for the year ended December 31, 2017, a $77.6 million, or 30.2%, decrease from $256.8 million for the year ended December 31, 2016. This decrease was primarily attributable to a decrease in revenue from our mobile OLED display driver ICs stemming from a timing mismatch between the drop-off in revenue from our existing OLED products and the introduction of new OLED products, and also from a prolonged slowdown in the China smartphone market. This decrease was partially offset by an increase in revenue from large display products mainly due to higher demand of source drivers for ultra high definition TVs. Net sales from our Power Solutions business line were $149.8 million for the year ended December 31, 2017, a $18.4 million, or 14.0%, increase from $131.5 million for the year ended December 31, 2016. The increase in sales was primarily due to premium power products and MOSFETs for TV and mobile battery applications.

All Other. All other net sales were $0.2 million for the year ended December 31, 2017 and $0.6 million for the year ended December 31, 2016, respectively.

Gross Profit

Total gross profit was $187.9 million for the year ended December 31, 2017 compared to $156.2 million for the year ended December 31, 2016, a $31.7 million, or 20.3%, increase. Gross profit as a percentage of net sales for the year ended December 31, 2017 increased to 27.6% compared to 22.7% for the year ended December 31,

2016. 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 $101.8 million for the year ended December 31, 2017, a $28.7 million, or 39.3%, increase compared to $73.1 million for the year ended December 31, 2016. Gross profit as a percentage of net sales for the year ended December 31, 2017 increased to 29.0% compared to 24.4% for the year ended December 31, 2016. The increase in gross profit as a percentage of net sales was mainly attributable to a better product mix, a higher utilization rate and a favorable impact from reduction in headcount, which was offset in part primarily by an increase in wafer price and employee costs associated with unused vacation.

Standard Products Group. Gross profit from our Standard Products Group segment was $85.9 million for the year ended December 31, 2017, a $2.4 million, or 2.8%, increase from $83.5 million for the year ended December 31, 2016. Gross profit as a percentage of net sales for the year ended December 31, 2017 increased to 26.1% compared to 21.5% for the year ended December 31, 2016. The increase in gross profit as a percentage of net sales was mainly attributable to a higher utilization rate and a favorable impact from reduction in headcount, which was offset in part primarily by an increase in wafer price and employee costs associated with unused vacation.

All Other. All other gross profit for the year ended December 31, 2017 was $0.2 million. All other gross profit for the year ended December 31, 2016 was a negative $0.4 million mainly attributable to training and transition costs related to our closed 6-inch fab employees, which was partially offset by revenue from 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, 2017 and 2016:

	Year Ended December 31, 2017		Year Ended December 31, 2016		
	Amount	% of Net Sales	Amount	% of Net Sales	Change Amount
			(In millions)		
Korea	$279.9	41.2%	$219.6	31.9%	$ 60.3
Asia Pacific (other than Korea)	322.6	47.5	391.9	57.0	(69.3)
U.S.A.	35.1	5.2	33.2	4.8	1.9
Europe	41.1	6.0	42.3	6.1	(1.2)
Others	1.0	0.1	1.0	0.1	(0.0)
	$679.7	100.0%	$688.0	100.0%	$ (8.3)

Net sales in Korea for the year ended December 31, 2017 increased from $219.6 million to $279.9 million compared to the year ended December 31, 2016, or by $60.3 million, or 27.4%, primarily due to higher demand of large display applications for TVs and our foundry services from certain customers serving the mid-range smartphone and consumer electronics markets. Higher sales of premium power products and MOSFETs also had a favorable impact.

Net sales in Asia Pacific for the year ended December 31, 2017 decreased from $391.9 million to $322.6 million compared to the year ended December 31, 2016, or by $69.3 million, or 17.7%, primarily due to lower level of sales of OLED display driver ICs, which was partially offset by an increase in sales of certain products from higher demand for our foundry services.

Operating Expenses

Selling, General and Administrative Expenses. Selling, general and administrative expenses were $81.8 million, or 12.0% of net sales for the year ended December 31, 2017, compared to $83.5 million, or 12.1% of net sales for the year ended December 31, 2016. The decrease of $1.8 million, or 2.1%, was attributable to a $2.9 million decrease in salary expense as a result of our headcount reduction and a $6.6 million decrease in professional fees mainly comprised of legal and consulting services. These decreases were offset in part primarily by a $4.2 million charge of the additional tax assessment and associated penalties and administrative fine as a result of the tax audit conducted by the KNTS which concluded in the fourth quarter of 2017.

Research and Development Expenses. Research and development expenses were $70.5 million, or 10.4% of net sales for the year ended December 31, 2017, compared to $72.2 million, or 10.5% of net sales for the year ended December 31, 2016. The decrease of $1.7 million, or 2.3%, was primarily attributable to a decrease in salary expense as a result of our headcount reduction of non-key R&D personnel.

Restructuring and Other Charges(Gain), Net. Restructuring and other charges (gain), net of $17.0 million recorded for the year ended December 31, 2017 resulted from a $16.6 million restructuring gain on the sale of the building related to the closure of our 6-inch fab and a $0.4 million gain on sale of our sensor business. Restructuring and other charges (gain), net of $6.5 million recorded for the year ended December 31, 2016 resulted from the sale of machinery related to the closure of our 6-inch fab, which was offset by $1.3 million of training and transition costs related to the employees at our closed 6-inch fab.

Early Termination Charges. Termination related charges related to the reduction of workforce through the Headcount Reduction Plan for the year ended December 31, 2017 and the Program for the year ended December 31, 2016 were $13.4 million and $4.2 million, respectively.

Operating Income (Loss)

As a result of the foregoing, operating income increased by $36.5 million in the year ended December 31, 2017 compared to the year ended December 31, 2016. As discussed above, the increase in operating income resulted from a $31.7 million increase in gross profit, a $1.8 million decrease in selling, general and administrative expenses, a $1.7 million decrease in research and development expenses and a $10.5 million increase in restructuring gain, which was partially offset by a $9.1 million increase in termination related charges.

Other Income (Expense)

Interest Expense. Interest expense for the year ended December 31, 2017 was $21.6 million compared to interest expense of $16.2 million for the year ended December 31, 2016. The increase of $5.3 million was attributable to the interest expense recorded for the Exchangeable Notes issued in January 2017.

Foreign Currency Gain (Loss), Net. Net foreign currency gain for the year ended December 31, 2017 was $65.5 million compared to net foreign currency loss of $15.4 million for the year ended December 31, 2016. The net foreign currency gain for the year ended December 31, 2017 was due to the appreciation in value of the Korean won relative to the US dollar during the period. The net foreign currency loss for the year ended December 31, 2016 was due to the depreciation in value of the Korean won relative to the US 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 US dollars, and is affected by changes in the exchange rate between the Korean won and the US dollar. As of December 31, 2017, the outstanding intercompany loan balance including accrued interest between our Korean subsidiary and our

Dutch subsidiary was $677.3 million. 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, 2017 and December 31, 2016 were $2.9 million and $3.0 million, respectively.

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 2017 and 2016. Statutory tax rates for all foreign subsidiaries were less than the US federal statutory rate of 35.0%.

We recorded income tax expenses of $1.2 million and $3.7 million for the years ended December 31, 2017 and 2016, respectively. The decrease in income tax expenses in 2017 was primarily attributable to our revised tax positions in connection with our Korean subsidiary. The effective tax rate was 1.3% for the year ended December 31, 2017, as compared to negative for the year ended December 31, 2016.

We make an ongoing assessment regarding the realization of US and non-US deferred tax assets. The valuation allowances at December 31, 2017 and 2016 were 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 Income

As a result of the foregoing, net income increased by $114.6 million in the year ended December 31, 2017 compared to the year ended December 31, 2016. As discussed above, the increase primarily resulted from a $36.5 million increase in operating income and an $80.9 million increase in foreign currency gain, which was partially offset by a $5.3 million increase in interest expense recorded for the Exchangeable Notes issued in January 2017.

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, 2018, we do not have any accounts payable on extended terms or payment deferment with our vendors.

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

As of December 31, 2018, cash and cash equivalents held by our Korean subsidiary were $109.0 million, which represents 82% of our total cash and cash equivalents of $132.4 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. Our Exchangeable Notes were issued by our Luxembourg subsidiary and the proceeds from the Exchangeable Notes Offering, were transferred to our Dutch and Korean subsidiaries through 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.

We may, from time to time, repurchase a portion of our outstanding 2021 Notes and our Exchangeable Notes through open market purchases or privately negotiated transactions subject to prevailing market conditions and our available cash reserves.

Year ended December 31, 2018 compared to year ended December 31, 2017

As of December 31, 2018, our cash and cash equivalents balance was $132.4 million, a $3.9 million increase, compared to $128.6 million as of December 31, 2017. The increase resulted from a $39.2 million of cash inflow provided by operating activities and a $1.3 million of cash inflow provided by financing activities, which was partially offset by a $33.3 million of cash outflow used in investing activities.

Cash inflow provided by operating activities totaled $39.2 million for the year ended December 31, 2018, compared to $20.3 million of cash outflow used in operating activities for the year ended December 31, 2017. The net operating cash inflow for the year ended December 31, 2018 reflects our net loss of $3.9 million, as adjusted favorably by $86.3 million, which mainly consisted of depreciation and amortization, provision for severance benefits and net foreign currency loss, and net unfavorable impact of $43.1 million from changes of operating assets and liabilities.

Our working capital balance as of December 31, 2018 was $220.1 million compared to $192.1 million as of December 31, 2017. The $28.0 million increase was primarily attributable to a $38.2 million increase in unbilled accounts receivable, which was a new item created in our balance sheet beginning January 1, 2018 to conform with the new revenue recognition standard and represented our contractual right to consideration for manufacturing work performed on a customer contract or an individual purchase order basis, which had not been invoiced to the customer. This increase was offset in part by a $12.0 million decrease in account receivables.

Cash outflow used in investing activities totaled $33.3 million for the year ended December 31, 2018, compared to $35.4 million for the year ended December 31, 2017. The $2.1 million decrease in investing activities was attributable to a $5.7 million net decrease in hedge collateral, which was partially offset by a $3.6 million net increase in guarantee deposits.

Cash inflow generated by financing activities totaled $1.3 million for the year ended December 31, 2018, compared to $72.7 million for the year ended December 31, 2017. The financing cash inflow for the year ended December 31, 2018 was primarily attributable to proceeds of $4.3 million in connection with the water treatment facility arrangement and $1.1 million of proceeds received from the issuance of common stock in connection with the exercise of stock options, which was offset in part by the payment of $2.2 million for the repurchases of 2021 Notes and Exchangeable Notes in December 2018 and $1.6 million for the repurchase of our common stock in December 2018 pursuant to our stock repurchase plan. The financing cash inflow for the year ended December 31, 2017 consisted of $80.3 million of net proceeds received from the issuance of the Exchangeable

Notes and $3.7 million of proceeds received from the exercise of stock options, which was partly offset by the payment of $11.4 million for the repurchase of 1,795,444 shares of our common stock in January 2017 pursuant to our stock repurchase plan.

We routinely make capital expenditures for fabrication facility maintenance, enhancement of our existing facilities and reinforcement of our global research and development capability. For the year ended December 31, 2018, capital expenditures for plant, property and equipment were $33.2 million, a $0.6 million, or 1.7%, increase from $32.7 million for the year ended December 31, 2017. The capital expenditures for the year ended December 31, 2018 included a $4.3 million payment for the purchase of the water treatment facility. The remaining expenditures were related to meeting our customer demand, and supporting technology and facility improvements at our fabrication facilities.

Year ended December 31, 2017 compared to year ended December 31, 2016

As of December 31, 2017, our cash, cash equivalents and restricted cash balance was $128.6 million, a $27.0 million increase, compared to $101.6 million as of December 31, 2016. The increase resulted from a $72.7 million of cash inflow provided by financing activities, which was partially offset by a $20.3 million of cash outflow used in operating activities and a $35.4 million of cash outflow used in investing activities.

Cash outflow used in operating activities totaled $20.3 million for the year ended December 31, 2017, compared to $9.4 million of cash inflow provided by operating activities for the year ended December 31, 2016. The net operating cash outflow for the year ended December 31, 2017 reflects our net income of $84.9 million and non-cash adjustments of a net negative $37.7 million, which mainly consisted of depreciation and amortization, provision for severance benefits and net foreign currency gain, and a net decrease in operating assets and liabilities of $67.5 million. The decrease in operating assets and liabilities was primarily related to an increase in accounts receivable as of December 31, 2017 due to a significant decrease in accounts receivable discounting during 2017 and the payments of statutory severance to the employees that resigned from our Company.

Our working capital balance as of December 31, 2017 was $192.1 million compared to $89.3 million as of December 31, 2016. The $102.9 million increase was primarily attributable to a $45.2 million increase in cash and cash equivalents, a $30.3 million increase in account receivables, a $16.0 million increase in inventory and a $16.5 million decrease in deposits received, which were partially offset by an $18.3 million decrease in restricted cash and a $14.4 million increase in account payables.

Cash outflow used in investing activities totaled $35.4 million for the year ended December 31, 2017, compared to cash inflow provided by investing activities totaled $1.0 million for the year ended December 31, 2016. The $36.4 million increase was attributable to a $16.4 million decrease in proceeds from disposal of plant, property and equipment, a $13.9 million net increase in capital expenditures and a $7.0 million net increase in hedge collateral, which was partially offset by a $1.0 million net decrease in guarantee deposits.

Cash inflow generated by financing activities totaled $72.7 million for the year ended December 31, 2017, compared to $1.7 million for the year ended December 31, 2016. The $71.0 million increase was primarily was attributable to $80.3 million of net proceeds received from the issuance of the Exchangeable Notes and a $2.0 million increase in proceeds received from exercised stock options, which was partly offset by the payment of $11.4 million for the repurchase of 1,795,444 shares of our common stock in January 2017 pursuant to our stock repurchase plan.

We routinely make capital expenditures for fabrication facility maintenance, enhancement of our existing facilities and reinforcement of our global research and development capability. For the year ended December 31, 2017, capital expenditures for plant, property and equipment were $32.7 million, a $13.9 million, or 74.4%, increase from $18.7 million for the year ended December 31, 2016. The increase was mainly for meeting our customer demand, and supporting technology and facility improvements at our fabrication facilities.

Contractual Obligations

The following summarizes our contractual obligations as of December 31, 2018:

	Payments Due by Period						
	Total	2019	2020	2021	2022	2023	Thereafter
	(In millions)						
Exchangeable Notes(1)	$ 95.2	$ 4.2	$ 4.2	$ 86.8	$ —	$ —	$ —
Senior notes(2)	269.1	14.9	14.9	239.4	—	—	—
Operating leases(3)	26.1	4.3	3.6	1.6	1.3	1.3	14.0
Water Treatment Services(3)(4)	57.6	8.7	8.7	8.6	8.5	5.9	17.2
Others(5)	24.8	11.5	10.6	2.6	—	—	—

(1) Interest payments as well as $84.66 million aggregate principal amount of the Exchangeable Notes outstanding as of December 31, 2018, which bear interest at a rate of 5.0% per annum and are scheduled to mature in 2021 if not earlier converted.

(2) Interest payments as well as $224.5 million aggregate principal amount of the 2021 Notes outstanding as of December 31, 2018, which bear interest at a rate of 6.625% per annum and are scheduled to mature in 2021 if not earlier redeemed.

(3) Assumes constant currency exchange rate for Korean won to US dollars of 1,118.1:1, the exchange rate as of December 31, 2018.

(4) Includes future payments for water treatment services for our fabrication facilities in Korea based on the contractual terms.

(5) Includes license agreements, funding obligations for the accrued severance benefits and other contractual obligations.

The indentures relating to the Exchangeable Notes and the 2021 Notes contain covenants as detailed in "Item 8. Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Note 10. Long-term Borrowings" in this Report. Those covenants are subject to a number of exceptions and qualifications. Certain of those restrictive covenants will terminate if the Exchangeable Notes or the 2021 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 are a party to arrangements for the water treatment facilities in Cheongju and Gumi, Korea, which include 5-year and 10-year service agreements, respectively.

Beginning in July 2018, we have contributed a certain percentage of severance benefits, accrued for eligible employees for their services beginning January 1, 2018, to certain severance insurance deposit accounts. These accounts consist of time deposits and other guaranteed principal and interest, and are maintained at insurance companies, banks or security companies for the benefit of employees. We deduct the contributions made to these severance insurance deposit accounts from our accrued severance benefits. As of December 31, 2018, our accrued severance benefits totaled $146.0 million and cumulative contributions to these severance insurance deposit accounts amounted to $2.5 million. Our related cash payments for future contributions are $2.7 million and $3.6 million for 2019 and 2020, respectively, to the extent that our obligations are contractual, fixed and reasonably estimable.

We follow US GAAP guidance on uncertain tax positions. Our unrecognized tax benefits totaled $0.4 million as of December 31, 2018. These unrecognized tax benefits have been excluded from the above table because we cannot estimate the period of cash settlement with the respective taxing authorities.

Critical Accounting Policies and Estimates

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

We believe that 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

We recognize revenue when it satisfies the performance obligation of transferring control over a product or service to a customer. Revenue is measured based on the consideration specified in a contract with a customer, which consideration is paid in exchange for a product or service.

Our Foundry Services Group manufactures products, which we refer to as foundry products, based on customers' specific product designs. We recognize revenue over time for foundry products that do not have an alternative use when we have an enforceable right to payment. Revenue recognized over time is in proportion of wafer manufacturing costs incurred relative to total estimated costs for completion. However, in certain circumstances, pursuant to a customer contract or an individual purchase order, we may not have an enforceable right to payment for services performed at a given time. In this situation, we recognize revenue at the time when a customer obtains control of the product, which is generally upon product shipment, delivery at the customer's location or upon customer acceptance, depending on the terms of the arrangement.

Our Standards Products Group sells products manufactured based on our design. Our products are either standardized with an alternative use or we do not have an enforceable right to payment for the related manufacturing services completed to date. For those products, revenue is recognized when a customer obtains control of the product, which is generally upon product shipment, delivery at the customer's location or upon customer acceptance, depending on the terms of the arrangement.

A portion of our sales are made through distributors for which we apply the same revenue recognition guidance described above. We defer the recognition of revenue when a distributor receives consideration from the customers prior to the performance obligation being fulfilled. These amounts are classified as deferred revenue on the consolidated balance sheets.

We provide warranty provisions under which customers can return defective products. We also provide allowances for additional products that may have to be provided free of charge to compensate customers for not meeting previously agreed upon yield criteria, which we refer to as the low yield compensation reserve. We estimate the costs related to warranty claims, repair or replacements and low yield compensation reserves, and record them as components of cost of sales.

In addition, we offer sales returns (other than those that relate to defective products under warranty), cash discounts for early payments, volume discounts and certain allowances to our customers, including our 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.

Substantially all of our contracts are one year or less in duration. The standard payment terms with customers are generally thirty to sixty days from the time of shipment, product delivery to the customer's location or customer acceptance, depending on the terms of the related arrangement.

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.

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 liabilities include historical and anticipated rates of warranty claims and repair or replacement costs per claim to satisfy our warranty obligation. We also record, in other current liabilities, low yield compensation reserves for our estimated costs for products that may have to be provided free of charge to compensate customers for not meeting previously agreed upon yield criteria. Factors that affect our low yield compensation reserves include historical and anticipated rates of claims for not meeting previously agreed upon yield criteria. We periodically assess the adequacy of our recorded warranty liabilities and low yield compensation reserves, and adjust our estimates when necessary.

Inventories

Inventories are stated at the lower of cost or net realizable value, using 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. We evaluate the sufficiency of inventory reserves and take into consideration historical usage, expected demand, anticipated sales price, new product development schedules, the effect new products might have on the sale of existing products, product age and other factors. Reserves are also established for excess inventory based on our current inventory levels and projected demand and our ability to sell those specific products. Situations that could cause these inventory reserves include a decline in business and economic conditions, decline in consumer confidence caused by changes in market conditions, sudden and significant decline in demand for our products, inventory obsolescence because of rapidly changing technology and consumer requirements, or failure to estimate end customer demand properly. A reduction of these inventory reserves may be recorded if previously reserved items are subsequently sold as a result of unexpected changes to certain aforementioned situations.

The gross amount of inventory reserves charged to cost of sales totaled $6.0 million, $4.8 million and $7.6 million in the fiscal years ended December 31, 2018, 2017 and 2016, respectively. The new cost base related to the sale of inventory that was previously written down totaled $1.8 million, $3.8 million and $5.0 million in the fiscal years ended December 31, 2018, 2017 and 2016, respectively.

As prescribed in ASC 330, "Inventory," once a reserve is established for a particular item based on our assessment as described above, it is maintained until the related item is sold or scrapped as a new cost basis has been established that cannot subsequently be marked up. In addition, 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 cost of sales were \$0.4 million, \$0.4 million and \$4.0 million for the years ended December 31, 2018, 2017 and 2016, respectively, and recorded as a reduction of inventory were \$0, \$0 and \$0.4 million for the years ended December 31, 2018, 2017 and 2016, respectively.

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.

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, which 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 Report, 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 US 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, 2018 for our Korean subsidiary, a 10% devaluation of the Korean won against the US dollar would have resulted in a decrease of $3.2 million in our US 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, 2018, $84.66 million aggregate principal amount of our Exchangeable Notes were outstanding. Interest on the Exchangeable Notes accrues at a fixed rate of 5.0% per annum and is paid semi-annually every March 1 and September 1 of each year until the Exchangeable Notes mature on March 1, 2021. As of December 31, 2018, $224.5 million aggregate principal amount of our 2021 Notes were also 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 rates are fixed, we have no market risk related to the Exchangeable Notes and the 2021 Notes.

Item 8. Financial Statements and Supplementary Data

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
MagnaChip Semiconductor Corporation

Opinions *on the Financial Statements and Internal Control over Financial Reporting*

We have audited the accompanying consolidated balance sheets of MagnaChip Semiconductor Corporation and its subsidiaries (the "Company") as of December 31, 2018 and 2017, and the related consolidated statements of operations, comprehensive income / (loss), changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2018, including the related notes (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control—Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018 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, 2018, based on criteria established in Internal Control—Integrated Framework (2013) issued by the COSO.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for revenue from contracts with customers in 2018.

Basis for *Opinions*

The Company's management is responsible for these consolidated 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 the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. 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.

Definition and Limitations of Internal Control over Financial Reporting

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 22, 2019

We have served as the Company's auditor since 2004.

MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31, 2018	December 31, 2017
	(In thousands of US dollars, except share data)	
Assets		
Current assets		
Cash and cash equivalents	$ 132,438	$ 128,575
Accounts receivable, net	80,003	92,026
Unbilled accounts receivable	38,181	—
Inventories, net	71,611	73,073
Other receivables	3,702	4,292
Prepaid expenses	11,133	9,250
Hedge collateral (Note 8)	5,810	7,600
Other current assets (Notes 1 and 2)	9,867	15,444
Total current assets	352,745	330,260
Property, plant and equipment, net	202,171	205,903
Intangible assets, net	3,953	4,061
Long-term prepaid expenses	15,598	12,791
Other non-current assets	8,729	5,774
Total assets	$ 583,196	$ 558,789
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 55,631	$ 65,940
Other accounts payable	15,168	10,261
Accrued expenses	46,250	51,746
Deferred revenue	6,477	8,335
Other current liabilities (Note 1)	9,133	1,860
Total current liabilities	132,659	138,142
Long-term borrowings, net	303,577	303,416
Accrued severance benefits, net	146,031	148,905
Other non-current liabilities	18,239	7,963
Total liabilities	600,506	598,426
Commitments and contingencies (Note 18)		
Stockholders' equity		
Common stock, $0.01 par value, 150,000,000 shares authorized, 43,054,458 shares issued and 34,441,232 outstanding at December 31, 2018 and 42,563,808 shares issued and 34,189,599 outstanding at December 31, 2017	431	426
Additional paid-in capital	142,600	136,259
Accumulated deficit	(36,305)	(40,889)
Treasury stock, 8,613,226 shares at December 31, 2018 and 8,374,209 shares at December 31, 2017, respectively	(103,926)	(102,319)
Accumulated other comprehensive loss	(20,110)	(33,114)
Total stockholders' deficit	(17,310)	(39,637)
Total liabilities and stockholders' equity	$ 583,196	$ 558,789

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,		
	2018	2017	2016
	(In thousands of US dollars, except share data)		
Net sales	$ 750,898	$ 679,672	$ 687,969
Cost of sales	552,802	491,779	531,743
Gross profit	198,096	187,893	156,226
Operating expenses			
Selling, general and administrative expenses	72,639	81,775	83,549
Research and development expenses	78,039	70,523	72,180
Restructuring and other charges (gain), net	—	(17,010)	(6,480)
Early termination charges	—	13,369	4,240
Total operating expenses	150,678	148,657	153,489
Operating income	47,418	39,236	2,737
Interest expense	(22,282)	(21,559)	(16,238)
Foreign currency gain (loss), net	(24,445)	65,516	(15,360)
Loss on early extinguishment of long-term borrowings, net	(206)	—	—
Other income, net	264	2,898	2,990
Income (loss) before income tax expenses	749	86,091	(25,871)
Income tax expenses	4,649	1,155	3,744
Net income (loss)	$ (3,900)	$ 84,936	$ (29,615)
Earnings (loss) per common share—			
Basic	$ (0.11)	$ 2.50	$ (0.85)
Diluted	$ (0.11)	$ 2.02	$ (0.85)
Weighted average number of shares—			
Basic	34,469,921	33,943,264	34,833,967
Diluted	34,469,921	44,755,137	34,833,967

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,		
	2018	2017	2016
	(In thousands of US dollars)		
Net income (loss)	$ (3,900)	$ 84,936	$(29,615)
Other comprehensive income (loss)			
Foreign currency translation adjustments	18,352	(52,873)	14,650
Derivative adjustments			
Fair valuation of derivatives	(1,589)	7,736	(1,032)
Reclassification adjustment for loss (gain) on derivatives included in net loss	(3,759)	(2,001)	637
Total other comprehensive income (loss)	13,004	(47,138)	14,255
Total comprehensive income (loss)	$ 9,104	$ 37,798	$(15,360)

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

Form 10-K

MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(In thousands of US dollars, except share data)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2016	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)
Stock-based compensation	—	—	2,336	—	—	—	2,336
Exercise of stock options	539,183	6	3,738	—	—	—	3,744
Settlement of restricted stock units	397,522	4	(4)	—	—	—	—
Acquisition of treasury stock	(1,795,444)	—	—	—	(11,401)	—	(11,401)
Other comprehensive income, net	—	—	—	—	—	(47,138)	(47,138)
Net income	—	—	—	84,936	—	—	84,936
Balance at December 31, 2017, as previously reported	34,189,599	$ 426	$ 136,259	$ (40,889)	$(102,319)	$(33,114)	$ (39,637)
Impact of adopting the new revenue standard	—	—	—	8,484	—	—	8,484
Balance at January 1, 2018, as adjusted	34,189,599	$ 426	$ 136,259	$ (32,405)	$(102,319)	$(33,114)	$ (31,153)
Stock-based compensation	—	—	5,213	—	—	—	5,213
Exercise of stock options	162,341	2	1,131	—	—	—	1,133
Settlement of restricted stock units	328,309	3	(3)	—	—	—	—
Acquisition of treasury stock	(239,017)	—	—	—	(1,607)	—	(1,607)
Other comprehensive income, net	—	—	—	—	—	13,004	13,004
Net loss	—	—	—	(3,900)	—	—	(3,900)
Balance at December 31, 2018	34,441,232	$ 431	$ 142,600	$ (36,305)	$(103,926)	$(20,110)	$ (17,310)

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,		
	2018	2017	2016
	(In thousands of US dollars)		
Cash flows from operating activities			
Net income (loss)	$ (3,900)	$ 84,936	$ (29,615)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities			
Depreciation and amortization	32,048	28,146	25,416
Provision for severance benefits	17,644	24,373	14,432
Amortization of debt issuance costs and original issue discount	2,183	1,987	707
Loss (gain) on foreign currency, net	30,215	(77,600)	18,884
Restructuring gain and other	—	(17,010)	(7,785)
Stock-based compensation	5,213	2,336	3,843
Loss on early extinguishment of long-term borrowings, net	206	—	—
Other	(1,235)	49	103
Changes in operating assets and liabilities			
Accounts receivable, net	8,294	(22,210)	285
Unbilled accounts receivable	(1,284)	—	—
Inventories, net	(30,675)	(8,077)	(557)
Other receivables	1,260	2,218	26,137
Other current assets	9,942	2,318	5,000
Accounts payable	(8,389)	10,320	(4,163)
Other accounts payable	(11,183)	(12,141)	(6,603)
Accrued expenses	(4,730)	(12,020)	(16,305)
Deferred revenue	2,891	(3,949)	1,674
Other current liabilities	2,123	(1,281)	(5,331)
Other non-current liabilities	2,346	(760)	(1,574)
Payment of severance benefits	(11,688)	(21,506)	(15,352)
Other	(2,045)	(382)	173
Net cash provided by (used in) operating activities	39,236	(20,253)	9,369
Cash flows from investing activities			
Proceeds from settlement of hedge collateral	14,342	10,615	6,317
Payment of hedge collateral	(12,907)	(14,839)	(3,552)
Proceeds from disposal of plant, property and equipment	1,685	1,209	17,605
Purchase of property, plant and equipment	(28,948)	(32,661)	(18,727)
Payment for property related to water treatment facility arrangement	(4,283)	—	—
Payment for intellectual property registration	(961)	(1,207)	(1,049)
Collection of guarantee deposits	801	1,462	619
Payment of guarantee deposits	(3,016)	(41)	(193)
Other	(19)	94	23
Net cash provided by (used in) investing activities	(33,306)	(35,368)	1,043
Cash flows from financing activities			
Proceeds from issuance of senior notes	—	86,250	—
Payment of debt issuance costs	—	(5,902)	—
Repurchase of long-term borrowings	(2,228)	—	—
Proceeds from exercise of stock options	1,132	3,744	1,732
Acquisition of treasury stock	(1,607)	(11,401)	—
Proceeds from property related to water treatment facility arrangement (Note 5)	4,283	—	—
Repayment of financing related to water treatment facility arrangement (Note 5)	(286)	—	—
Net cash provided by financing activities	1,294	72,691	1,732
Effect of exchange rates on cash, cash equivalents and restricted cash	(3,361)	9,899	(1,420)
Net increase in cash, cash equivalents and restricted cash	3,863	26,969	10,724
Cash, cash equivalents and restricted cash			
Beginning of the period	128,575	101,606	90,882
End of the period	$132,438	$128,575	$101,606
Supplemental cash flow information			
Cash paid for interest	$ 19,255	$ 17,590	$ 14,906
Cash paid for income taxes	$ 920	$ 1,027	$ 693
Non-cash investing and financing activities			
Property, plant and equipment additions in other accounts payable	$ 5,249	$ 2,520	$ 3,091

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

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

Business

MagnaChip Semiconductor Corporation (together with its subsidiaries, the "Company") is a designer and manufacturer of analog and mixed-signal semiconductor platform solutions for communications, Internet of Things ("IoT") applications, consumer, industrial and automotive 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 communications, IoT, consumer, industrial and automotive 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 panel display solutions to major suppliers of large and small rigid and flexible panel displays, and mobile, automotive applications and home appliances. The Company's Power Solutions products include discrete and integrated circuit solutions for power management in communications, consumer 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.

Upon the adoption of Accounting Standards Update No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09") effective on January 1, 2018 (the "new revenue standard"), the Company has updated its accounting policy for revenue recognition as detailed below. As the Company adopted the new revenue standard using the modified retrospective method, which allows the recognition of the cumulative effect of initially applying the new revenue standard as an adjustment to the Company's equity as of January 1, 2018. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

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.

Reclassifications

Certain charges related to the closure of the Company's 6-inch fab and headcount reduction during 2016, previously included in selling, general and administrative expenses in the consolidated statements of operations for the year ended December 31, 2016, have been reclassified to restructuring and other charges (gain), net and early termination charges, respectively, to conform to the Company's presentation for the year ended December 31, 2017. These reclassifications had no impact on the Company's net income (loss), the consolidated balance sheets, the consolidated statements of comprehensive income (loss) and the consolidated statements of cash flows as previously reported.

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 US dollar to be their respective functional currencies. The Korean Won is 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 US dollar are translated into the US dollar in accordance with ASC 830. All the assets and liabilities are translated to the US 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 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, net, an allowance for volume discounts offered to certain customers and distributors for meeting agreed upon levels of sales volume.

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 earning during the period of sale.

Inventories

Inventories are stated at the lower of cost or net realizable value, using 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. The Company evaluates the sufficiency of inventory reserves and take into consideration historical usage, expected demand, anticipated sales price, new product development schedules, the effect new products might have on the sale of existing products, product age and other factors. Reserves are also established for excess inventory based on the Company's current inventory levels and projected demand and its ability to sell those specific products. Situations that could cause these inventory reserves include a decline in business and economic conditions, decline in consumer confidence caused by changes in market conditions, sudden and significant decline in demand for our products, inventory obsolescence because of rapidly changing technology and consumer requirements, or failure to estimate end customer demand properly. A reduction of these inventory reserves may be recorded if previously reserved items are subsequently sold as a result of unexpected changes to certain aforementioned situations.

In addition, as prescribed in ASC 330, "Inventory," once a reserve is established for a particular item based on the Company's assessment as described above, it is maintained until the related item is sold or scrapped as a new cost basis has been established that cannot subsequently be marked up. In addition, 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.

Advances to Suppliers

The Company, from time to time, may make prepayments to suppliers to procure materials to meet its planned production. The Company recorded prepayments of $8,132 thousand and $7,404 thousand as other current assets as of December 31, 2018 and 2017, respectively.

Vendor Rebates

The Company, from time to time, enters 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 assesses the progress of its purchase levels and revises 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 cost of sales were $378 thousand, $379 thousand and $4,044 thousand for the years ended December 31, 2018, 2017 and 2016, respectively, and as a reduction of inventory were $0, $0 and $359 thousand as of December 31, 2018, 2017 and 2016, respectively.

(TABULAR DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)

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 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 that 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 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 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, 2018, 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.

Beginning in July 2018, the Company began contributing a percentage of severance benefits, which may be adjusted from time to time, accrued for eligible employees for their services beginning January 1, 2018, to certain severance insurance deposit accounts. These accounts consist of time deposits and other guaranteed principal and interest accounts, and are maintained at insurance companies, banks or security companies for the benefit of the Company's employees.

Revenue Recognition

The Company recognizes revenue when it satisfies the performance obligation of transferring control over a product or service to a customer. Revenue is measured based on the consideration specified in a contract with a customer, which consideration is paid in exchange for a product or service.

The Foundry Services Group of the Company manufactures products, which we refer to as foundry products, based on customers' specific product designs. The Company recognizes revenue over time for foundry products that do not have an alternative use when the Company has an enforceable right to payment. Revenue recognized over time is in proportion of wafer manufacturing costs incurred relative to total estimated costs for completion. However, in certain circumstances, pursuant to a customer contract or an individual purchase order, the Company may not have an enforceable right to payment for services performed at a given time. In this situation, the Company recognizes revenue at the time when a customer obtains control of the product, which is generally upon product shipment, delivery at the customer's location or upon customer acceptance, depending on the terms of the arrangement.

The Standards Products Group of the Company sells products manufactured based on the Company's design. The Standard Products Group's products are either standardized with an alternative use or the Company does not have an enforceable right to payment for the related manufacturing services completed to date. For those products, revenue is recognized when a customer obtains control of the product, which is generally upon product shipment, delivery at the customer's location or upon customer acceptance, depending on the terms of the arrangement.

A portion of the Company's sales are made through distributors for which the Company applies the same revenue recognition guidance described above. The Company defers the recognition of revenue when a distributor receives consideration from the customers prior to the performance obligation being fulfilled. These amounts are classified as deferred revenue on the consolidated balance sheets.

In accordance with revenue recognition guidance, any tax assessed by a governmental authority that is both imposed on and concurrent with a specific revenue-producing transaction, and that is collected by the Company from a customer, is excluded from revenue and presented in the statement of operations on a net basis.

The Company provides warranty provisions under which customers can return defective products. The Company also provides allowances for additional products that may have to be provided free of charge to compensate customers for not meeting previously agreed upon yield criteria, which the Company refers to as the low yield compensation reserve. The Company estimates the costs related to warranty claims, repair or replacements and low yield compensation reserves, and records them as components of cost of sales.

In addition, the Company offers sales returns (other than those that relate to defective products under warranty), cash discounts for early payments, volume discounts and certain allowances to the Company's customers, including the Company's 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.

Substantially all of the Company's contracts are one year or less in duration. The standard payment terms with customers are generally thirty to sixty days from the time of shipment, product delivery to the customer's location or customer acceptance, depending on the terms of the related arrangement.

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 $1,861 thousand, $1,652 thousand, and $1,631 thousand for the years ended December 31, 2018, 2017 and 2016, respectively.

Derivative Financial Instruments

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

Under the provisions of ASC 815, the Company may designate a derivative instrument as hedging the exposure to variability in expected future cash flows that are attributable to a particular risk (a "cash flow hedge") or hedging the exposure to changes in the fair value of an asset or a liability (a "fair value hedge"). Special accounting for qualifying hedges allows the effective portion of a derivative instrument's gains and 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 $121 thousand, $95 thousand and $149 thousand for the years ended December 31, 2018, 2017 and 2016, 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 liabilities include historical and anticipated rates of warranty claims and repair or replacement costs per claim to satisfy the Company's warranty obligation. The Company also records, in other current liabilities, low yield compensation reserves for its estimated costs for products that may have to be provided free of charge to compensate customers for not meeting previously agreed upon yield criteria. Factors that affect the Company's low yield compensation reserves include historical and anticipated rates of claims for not meeting previously agreed upon yield criteria. The Company periodically assesses the adequacy of those recorded warranty liabilities and low yield compensation reserves, and adjusts its estimates 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 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, net of the estimated forfeiture rate, 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 US Treasury yield curve for the period corresponding with the expected term at the time of grant. 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 including stock options and restricted stock units, using the treasury stock method (by using the average stock price for the period to determine the number of shares assumed to be purchased from the exercise of stock options and restricted stock units), and convertibles, using the if-converted method. 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 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 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2018-13 "Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement" ("ASU 2018-13"). ASU 2018-13 amends existing fair value measurement disclosure requirements by adding, changing, or removing certain disclosures. ASU 2018-13 is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, with early adoption permitted for any eliminated or modified disclosures. The Company does not expect that the adoption will have an impact on the Company's consolidated financial statements.

In February 2018, the FASB issued Accounting Standards Update No. 2018-02 "Income Statement—Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income" ("ASU 2018-02"). ASU 2018-02 addresses the accounting issue pertaining to the deferred tax amounts that are "stranded" in accumulated other comprehensive income as a result of the Tax Cuts and Jobs Act. ASU 2018-02 is effective for interim and annual periods beginning after December 15, 2018 and interim periods within those fiscal years. The Company does not have deferred tax amounts recorded through accumulated other comprehensive income and thus does not expect that the adoption will have an impact on its consolidated financial statements.

In August 2017, the FASB issued Accounting Standards Update No. 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities" ("ASU 2017-12"). ASU 2017-12 provides new guidance about income statement classification and eliminates the requirement to separately measure and report hedge ineffectiveness. The entire change in fair value for qualifying hedge instruments included in the effectiveness will be recorded in other comprehensive income (OCI) and amounts deferred in OCI will be reclassified to earnings in the same income statement line item in which the earnings effect of the hedged item is reported. ASU 2017-12 is effective for interim and annual periods for the Company on January 1, 2019, with early adoption permitted. The Company does not expect the adoption of ASU 2017-12 to have a material effect on the Company's consolidated financial statements.

In July 2017, the FASB issued Accounting Standards Update No. 2017-11, "Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815)" ("ASU 2017-11"), which addresses the complexity of accounting for certain financial instruments with down round features. Down round features are features of certain equity-linked instruments (or embedded features) that result in the strike price being reduced on the basis of the pricing of future equity offerings. Current accounting guidance creates cost and complexity for entities that issue financial instruments (such as warrants and convertible instruments) with down round features that require fair value measurement of the entire instrument or conversion option. For public business entities, the amendments in ASU 2017-11 are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company does not expect the adoption of ASU 2017-11 to have a material effect on the Company's 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 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. In January 2018, the FASB issued Accounting Standards Update No 2018-01, "Leases (Topic 842) Land Easement Practical Expedient for Transition to Topic 842" ("ASU 2018-01"). ASU 2018-01 permits an entity to elect an optional transition practical expedient not to evaluate land easements that exist or expired before the entity's adoption of ASU 2016-02 and that were not accounted for as leases under previous lease guidance. In July 2018, the FASB issued Accounting Standards Update No 2018-10, "Codification Improvements to Topic 842 Leases" ("ASU 2018-10"). ASU 2018-10 provides narrow amendments to clarify how to apply certain aspects of the new lease standard. In July 2018, the FASB also issued Accounting Standards Update No 2018-11, "Leases (Topic 842) Targeted Improvements" ("ASU 2018-11"). ASU 2018-11 allows an entity to recognize a cumulative-effect adjustment to the opening balance of retained earnings upon adoption of ASU 2016-02 (the "modified retrospective transition method"). In December 2018, the FASB issued Accounting Standards Update No 2018-20, "Leases (Topic 842) Narrow Scope Improvements for Lessors" ("ASU 2018-20"). ASU 2018-20 provides certain amendments that affect narrow aspects of the guidance issued in ASU 2016-02. The effective date and transition requirements for ASU 2016-02, ASU 2018-01, ASU 2018-10, ASU 2018-11 and ASU 2018-20 are the same (collectively, the "new lease standard").

Based on the preliminary work completed, the Company anticipates that the most significant impact from the adoption of the new lease standard will be the recognition of a right-of-use asset and a lease liability on its consolidated balance sheet for leases with a duration of greater than one year. The Company will adopt the new lease standard in the first quarter of 2019 utilizing the modified retrospective transition method that allows a cumulative-effect adjustment from the adoption of the new lease standard to be recorded at the beginning of the first quarter of 2019. While the Company is continuing to assess the potential impacts of the new lease standard, the Company estimates that the impact on its consolidated balance sheet as of January 1, 2019 to be less than 5% of total assets and liabilities.

Recently Adopted Accounting Pronouncements

In May 2017, the FASB issued Accounting Standards Update No. 2017-09, "Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting" ("ASU 2017-09"). ASU 2017-09 provides clarity and reduces both (i) diversity in practice and (ii) cost and complexity when applying the guidance in Topic 718 to a change to the terms or conditions of a share-based payment award. The amendments in ASU 2017-09 provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The Company adopted ASU 2017-09 in the first quarter of 2018, and the adoption did not impact the Company's consolidated financial statements.

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, Statement of Cash Flows ("ASC 230"), including (i) providing additional guidance related to transfers between cash and restricted cash, (ii) how entities present "net cash used in operating" and "net cash used in investing" in their statement of cash flows, and (iii) the cash receipts and cash payments that directly affect the restricted cash accounts. The Company adopted ASU 2016-18 in the first quarter of 2018. As of December 31, 2016, the Company held $18,251 thousand of restricted cash in connection with an arrangement to sell the building that housed the Company's legacy 6-inch fab. This restricted cash was not previously included in the ending cash balance as of December 31, 2016 within the consolidated statements of cash flows. As a result of adopting ASU 2016-18, the consolidated statement of cash flows for the year ended December 31, 2017 was revised to include such restricted cash of $18,251 thousand as cash, cash equivalents and restricted cash as of January 1, 2017. This change resulted in an increase of $1,809 thousand in net cash used in operating activities, an increase of $17,625 thousand in net cash used in investing activities, and an increase of $1,183 thousand in changes in cash, cash equivalents and restricted cash due to the effect of exchange rates, from what was previously reported. Also, as a result of adopting ASU 2016-18, the consolidated statement of cash flows for the year ended December 31, 2016 was revised to include this restricted cash of $18,251 thousand as cash, cash equivalents and restricted cash as of December 31, 2016, resulting in an increase of $1,738 in net cash provided by operating activities, a decrease in net cash used in investing activities of $16,917 thousand, and a decrease of $404 thousand in changes in cash, cash equivalents and restricted cash due to the effect of exchange rates, from what was previously reported for 2016.

In August 2016, the FASB issued Accounting Standards Update No. 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, including providing additional guidance on how and what an entity should consider in determining the classification of certain cash flows. The Company adopted ASU 2016-15 in the first quarter of 2018, and the adoption of ASU 2016-15 did not impact the Company's consolidated financial statements.

In May 2014, the FASB issued 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, 2017, including interim periods within that reporting period. The new guidance allows for the amendments to be applied either retrospectively to each prior reporting period presented (the "full retrospective method") or retrospectively as a cumulative-effect adjustment as of the date of adoption (the "modified retrospective method"). In March 2016, the FASB issued ASU 2016-08, which clarifies the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued ASU 2016-10, which clarifies identifying performance obligations and the licensing implementation guidance. In May 2016, the FASB issued ASU 2016-12, which improves certain aspects of ASC Topic 606 "Revenue from Contracts with Customers." In December 2016, the FASB issued ASU 2016-20, which improves certain aspects of ASC Topic 606 "Revenue from Contracts with Customers." The effective date and transition requirements for ASU 2016-08, ASU 2016-10, ASU 2016-12 and ASU 2016-20 are the same as the effective date and transition requirements of ASU 2014-09 (collectively, the "new revenue standard").

Prior to the adoption of the new revenue standard effective on January 1, 2018, the Company had historically recognized revenue when risk and reward of ownership passed to the customer either upon shipment, upon product delivery at the customer's location or upon customer acceptance, depending on the terms of the related arrangement. After the adoption of the new revenue standard effective on January 1, 2018, the Company recognizes revenue over time for foundry products that do not have an alternative use when the Company has an enforceable right to payment. As the Company adopted the new revenue standard using the modified retrospective method, it recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the Company's equity as of January 1, 2018, while prior period amounts are not adjusted and continue to be reported under the accounting standards in effect for such periods. The cumulative effect of the adjustments increased unbilled accounts receivable by $38,307 thousand and decreased inventories, net by $29,823 thousand, resulting in a net increase of $8,484 thousand in the Company's beginning equity as of January 1, 2018. There was no net income tax impact from those cumulative effect adjustments due to full allowance on deferred tax assets.

Of the recorded unbilled accounts receivable of $38,307 thousand as of January 1, 2018, $36,946 thousand was billed to customers upon shipment, upon product delivery or upon customer acceptance, depending on the terms of the related arrangement, during the year ended December 31, 2018. Of the recorded deferred revenue of $8,335 thousand as of December 31, 2017, $3,496 thousand was recognized as revenue during the year ended December 31, 2018, and $4,671 thousand was reclassified to other current liabilities as the relevant advance payment agreement with a certain customer was terminated.

The Company evaluated contracts for significant financing components or disclosure requirements for any remaining performance obligations. This evaluation did not result in any financial or disclose impact as substantially all of the Company's contracts were one year or less in duration and the related payments were expected to be received within one year or less from the transfer of the promised product to a customer.

The impacts of adopting the new revenue standard on the Company's consolidated financial statements for the year ended December 31, 2018 are as follows (in thousands):

	As of December 31, 2018		
	As Reported	Adjustments	Amounts Without Adoption of Topic 606
	(In thousands of US dollars, except share data)		
Assets			
Current assets			
Unbilled accounts receivable	$ 38,181	$ 38,181	$ —
Inventories, net	71,611	(28,100)	99,711
Total current assets	352,745	10,081	342,664
Total assets	583,196	10,081	573,115
Liabilities and Stockholders' Equity			
Stockholders' equity			
Accumulated deficit	(36,305)	10,444	(46,749)
Accumulated other comprehensive loss	(20,110)	(363)	(19,747)
Total stockholders' deficit	(17,310)	10,081	(27,391)
Total liabilities and stockholders' deficit	$583,196	$ 10,081	$573,115

Unbilled accounts receivable represent the Company's contractual right to consideration for manufacturing work performed on a customer contract or an individual purchase order, which has not been invoiced to the customer.

	Year Ended December 31, 2018		
	As Reported	Adjustments	Amounts Without Adoption of Topic 606
	(In thousands of US dollars, except share data)		
Net sales	$750,898	$1,284	$749,614
Cost of sales	552,802	(676)	553,478
Gross profit	198,096	1,960	196,136
Operating income	47,418	1,960	45,458
Income (loss) before income tax expenses	749	1,960	(1,211)
Net loss	$ (3,900)	$1,960	$ (5,860)
Loss per common share—			
Basic	$ (0.11)	$ 0.06	$ (0.17)
Diluted	$ (0.11)	$ 0.06	$ (0.17)

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, 2018, 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, 2018	Fair Value Measurement December 31, 2018	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)	$724	$724	—	$724	—

As of December 31, 2017, the following table represents the Company's assets measured at fair value on a recurring basis and the basis for that measurement (in thousands):

	Carrying Value December 31, 2017	Fair Value Measurement December 31, 2017	Quoted Prices in Active Markets for Identical Asset (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:					
Derivative assets (other current assets)	$5,179	$5,179	—	$5,179	—

Items not reflected in the table above include cash equivalents, 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.

Fair Value of Long-term Borrowings

	December 31, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In thousands of US dollars)			
Long-term Borrowings:				
5.0% Exchangeable Senior Notes due March 2021 (Level 2)	$ 81,418	$ 86,835	$ 81,576	$127,617
6.625% senior notes due July 2021 (Level 2)	$222,159	$202,046	$221,840	$224,719

On January 17, 2017, the Company's wholly-owned subsidiary, MagnaChip Semiconductor S.A., closed an offering (the "Exchangeable Notes Offering") of 5.0% Exchangeable Senior Notes due March 1, 2021 (the "Exchangeable Notes") of $86,250 thousand, which represents the principal amount, excluding $5,902 thousand of debt issuance costs. In December 2018, MagnaChip Semiconductor S.A repurchased a principal amount equal to $1,590 thousand of the Exchangeable Notes in the open market. The Company estimates the fair value of the Exchangeable Notes using the market approach, which utilizes quoted market prices that fall under Level 2. For further description of the Exchangeable Notes, see Note 10, "Long-term Borrowings".

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. In December 2018, the Company repurchased a principal amount equal to $500 thousand of the 2021 Notes in the open market. 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, 2018 and 2017, the Company did not have any assets or liabilities measured at fair value on a non-recurring basis.

3. Accounts Receivable

Accounts receivable as of December 31, 2018 and 2017 consisted of the following (in thousands):

	December 31,	
	2018	2017
Accounts receivable	$80,155	$86,167
Notes receivable	856	7,425
Less:		
Allowances for doubtful accounts	(90)	(94)
Sales return reserves	(439)	(628)
Low yield compensation reserve	—	(844)
Volume discounts	(479)	—
Accounts receivable, net	$80,003	$92,026

Changes in allowance for doubtful accounts for the years ended December 31, 2018, 2017 and 2016 are as follows (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Beginning balance	$ (94)	$ (83)	$(236)
Reversal	—	—	148
Translation adjustments	4	(11)	5
Ending balance	$ (90)	$ (94)	$ (83)

Changes in sales return reserves for the years ended December 31, 2018, 2017 and 2016 are as follows (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Beginning balance	$(628)	$(1,107)	$(1,481)
Reversal (Provision)	(245)	(40)	(26)
Usage	414	626	361
Translation adjustments	20	(107)	39
Ending balance	$(439)	$ (628)	$(1,107)

Changes in low yield compensation reserve for the years ended December 31, 2017 and 2016 are as follows (in thousands):

Beginning in the first quarter of 2018, the Company recognized the low yield compensation reserves as a component of cost of sales, which were previously recorded as a deduction of sales.

	Year Ended December 31,		
	2018	2017	2016
Beginning balance	$—	$(432)	$(480)
Reversal (Provision)	—	(362)	(29)
Usage	—	22	63
Translation adjustments	—	(72)	14
Ending balance	$—	$(844)	$(432)

Changes in volume discounts for the year ended December 31, 2018 are as follows (in thousands):

Beginning balance	$ —
Provision	(889)
Usage	404
Translation adjustments	6
Ending balance	$(479)

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 $25,266 thousand, $18,973 thousand and $25,146 for the years ended December 31, 2018, 2017 and 2016, respectively, and these sales resulted in pre-tax losses of $63 thousand, $55 thousand and $78 thousand for the years ended December 31, 2018, 2017 and 2016, 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, 2018 and 2017 consist of the following (in thousands):

	Year Ended December 31, 2018	Year Ended December 31, 2017
Finished goods	14,334	13,737
Semi-finished goods and work-in-process	39,135	53,148
Raw materials	21,150	12,445
Materials in-transit	1,890	134
Less: inventory reserve	(4,898)	(6,391)
Inventories, net	$71,611	$73,073

Changes in inventory reserve for the years ended December 31, 2018, 2017 and 2016 are as follows (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Beginning balance	$(6,391)	$(7,177)	$(16,033)
Change in reserve			
Inventory reserve charged to costs of sales	(6,014)	(4,789)	(7,646)
Sale of previously reserved inventory	1,773	3,784	4,985
	(4,241)	(1,005)	(2,661)
Write off	5,469	2,620	11,384
Translation adjustments	265	(829)	133
Ending balance	$(4,898)	$(6,391)	$ (7,177)

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, work-in-process and raw materials. Write off of this reserve is recognized only when the related inventory has been disposed or scrapped.

5. Property, Plant and Equipment

Property, plant and equipment as of December 31, 2018 and 2017 are comprised of the following (in thousands):

	December 31, 2018	December 31, 2017
Buildings and related structures	$ 70,665	$ 69,958
Machinery and equipment	323,325	308,713
Others	44,724	42,497
	438,714	421,168
Less: accumulated depreciation	(251,962)	(231,356)
Land	15,419	16,091
Property, plant and equipment, net	$ 202,171	$ 205,903

Aggregate depreciation expenses totaled $31,229 thousand $27,498 thousand and $24,941 thousand for the years ended December 31, 2018, 2017 and 2016, respectively.

As of June 29, 2018, the Company's Korean subsidiary entered into an arrangement whereby it (i) acquired a water treatment facility from SK hynix for $4,172 thousand to support its fab in Gumi, Korea, and (ii) subsequently sold the water treatment facility for $4,172 thousand to a third party management company that the Company engaged to run the facility for a 10-year term. This arrangement is accounted for as a financing due to the Company's Korean subsidiary's continuing involvement with the facility. As a result, on the acquisition date, the Company recorded $4,172 thousand as property, plant and equipment, net, which is depreciated over the water treatment facility's estimated useful life. The Company also recorded the related liabilities of $553 thousand as other current liabilities and $3,619 thousand as other non-current liabilities, which relate to the financing and service portions, respectively, of the arrangement and are amortized using the effective interest method over the 10-year contract period.

6. Intangible Assets

Intangible assets as of December 31, 2018 and 2017 are comprised of the following (in thousands):

	December 31, 2018		
	Gross amount	Accumulated amortization	Net amount
Technology	$19,350	$(19,350)	$ —
Customer relationships	27,791	(27,791)	—
Intellectual property assets	11,571	(7,618)	3,953
Intangible assets, net	$58,712	$(54,759)	$3,953

	December 31, 2017		
	Gross amount	Accumulated amortization	Net amount
Technology	$20,194	$(20,194)	$ —
Customer relationships	29,002	(29,002)	—
Intellectual property assets	11,319	(7,258)	4,061
Intangible assets, net	$60,515	$(56,454)	$4,061

Aggregate amortization expense for intangible assets totaled $819 thousand, $648 thousand and $475 thousand for the years ended December 31, 2018, 2017 and 2016, respectively. The aggregate amortization expense of intangible assets for the next five years are estimated to be $845 thousand, $827 thousand, $792 thousand, $688 thousand and $491 thousand, for the years ended December 31, 2019, 2020, 2021, 2022 and 2023, respectively.

7. Accrued Expenses

Accrued expenses as of December 31, 2018 and 2017 are comprised of the following (in thousands):

	December 31, 2018	December 31, 2017
Payroll, benefits and related taxes, excluding severance benefits	$14,548	$16,724
Withholding tax attributable to intercompany interest income	20,879	18,138
Interest on senior notes	8,226	8,268
Outside service fees	935	1,942
Others	1,662	6,674
Accrued expenses	$46,250	$51,746

8. Derivative Financial Instruments

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

Details of derivative contracts as of December 31, 2018 are as follows (in thousands):

Date of transaction	Type of derivative	Total notional amount	Month of settlement
June 27, 2018	Zero cost collar	$18,000	January 2019 to June 2019
June 27, 2018	Forward	$36,000	January 2019 to June 2019

Details of derivative contracts as of December 31, 2017 are as follows (in thousands):

Date of transaction	Type of derivative	Total notional amount	Month of settlement
June 22, 2017	Zero cost collar	$20,000	January 2018 to February 2018
September 28, 2017	Zero cost collar	$54,000	January 2018 to June 2018
September 28, 2017	Forward	$36,000	January 2018 to June 2018

The zero cost collar and forward 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 and forward contracts recorded as assets and liabilities as of December 31, 2018 and 2017 are as follows (in thousands):

Derivatives designated as hedging instruments:		December 31, 2018	December 31, 2017
Asset Derivatives:			
Zero cost collars	Other current assets	$—	$2,827
Forward	Other current assets	$—	$2,352
Liability Derivatives:			
Zero cost collars	Other current liabilities	$117	$ —
Forward	Other current liabilities	$607	$ —

Offsetting of derivative liabilities as of December 31, 2018 is as follows (in thousands):

As of December 31, 2018	Gross amounts of recognized liabilities	Gross amounts offset in the balance sheets	Net amounts of liabilities presented in the balance sheets	Gross amounts not offset in the balance sheets: Financial instruments	Gross amounts not offset in the balance sheets: Cash collateral pledged	Net amount
Liability Derivatives:						
Zero cost collars	$117	$—	$117	$—	$ (360)	$(243)
Forward	$607	$—	$607	$—	$(1,450)	$(843)

Offsetting of derivative assets as of December 31, 2017 is as follows (in thousands):

As of December 31, 2017	Gross amounts of recognized assets	Gross amounts offset in the balance sheets	Net amounts of assets presented in the balance sheets	Gross amounts not offset in the balance sheets: Financial instruments	Gross amounts not offset in the balance sheets: Cash collateral pledged	Net amount
Asset Derivatives:						
Zero cost collars	$2,827	$—	$2,827	$—	$—	$2,827
Forward	$2,352	$—	$2,352	$—	$—	$2,352

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.

The following table summarizes the impact of derivative instruments on the consolidated statement of operations for the years ended December 31, 2018 and 2017 (in thousands):

Derivatives in ASC 815 Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion)		Location of Gain Reclassified from AOCI into Statement of Operations (Effective Portion)	Amount of Gain Reclassified from AOCI into Statement of Operations (Effective Portion)		Location of Gain (loss) Recognized in Statement of Operations on Derivative (Ineffective Portion)	Amount of Gain (loss) Recognized in Statement of Operations on Derivatives (Ineffective Portion)	
	2018	2017		2018	2017		2018	2017
Zero cost collars	$ (747)	$4,692	Net sales	$2,103	$1,501	Other income, net	$ (276)	$ 606
Forwards	$ (842)	$3,044	Net sales	$1,656	$ 500	Other income, net	$(2,094)	$(370)
Total	$(1,589)	$7,736		$3,759	$2,001		$(2,370)	$ 236

As of December 31, 2018, the amount expected to be reclassified from accumulated other comprehensive loss into loss within the next twelve months is $49 thousand.

The Company set aside $4,000 thousand and $7,600 thousand of cash deposits to the counterparty, Nomura Financial Investment (Korea) Co., Ltd. (“NFIK”) as required for the zero cost collar and forward contracts outstanding as of December 31, 2018 and 2017, 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. $1,810 thousand of additional cash collateral was required as of December 31, 2018 and recorded as hedge collateral on the consolidated balance sheets. There was no such cash collateral required as of December 31, 2017. These outstanding zero cost collar and forward 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, 2018, 2017 and 2016 are as follows (in thousands):

Beginning in the first quarter of 2018, the Company recognized low yield compensation reserves as a component of cost of sales. Low yield compensation reserves were previously recorded as a deduction of sales.

The Company accounted for this change prospectively as a change in accounting estimate, which resulted in an increase of $844 thousand in current liabilities, as of January 1, 2018.

	Year Ended December 31,		
	2018	2017	2016
Beginning balance	$1,060	$ 466	$1,425
Change in reversal (provision)	222	(224)	(426)
Usage	(636)	(65)	(527)
Translation adjustments	(36)	39	(6)
Ending balance	$ 610	$ 216	$ 466

10. Long-term Borrowings

Long-term borrowings as of December 31, 2018 and 2017 are as follows (in thousands):

	December 31, 2018	December 31, 2017
5.0% Exchangeable Senior Notes due March 2021	$ 84,660	$ 86,250
6.625% senior notes due July 2021	$224,500	$225,000
Less: unamortized discount and debt issuance costs	(5,583)	(7,834)
Long-term borrowings, net of unamortized discount and debt issuance costs	$303,577	$303,416

5.0% Exchangeable Senior Notes

On January 17, 2017, MagnaChip Semiconductor S.A. closed the Exchangeable Notes Offering of $86,250 thousand aggregate principal amount of 5.0% Exchangeable Notes. Interest on the Exchangeable Notes accrues at a rate of 5.0% per annum, payable semi-annually on March 1 and September 1 of each year, beginning on March 1, 2017. The Exchangeable Notes will mature on March 1, 2021, unless earlier repurchased or converted. Holders may convert their notes at their option at any time prior to the close of business on the business day immediately preceding the stated maturity date.

The Company used a portion of the net proceeds from the issuance to repurchase 1,795,444 shares of common stock under its stock repurchase program at an aggregate cost of $11,401 thousand.

Upon conversion, the Company will deliver for each $1,000 principal amount of converted notes a number of shares equally to the exchange rate, which will initially be 121.1387 shares of common stock per $1,000 principal amount of Exchangeable Notes, equivalent to an initial exchange price of approximately $8.26 per share of common stock. The exchange rate will be subject to adjustment in some circumstances, but will not be adjusted for any accrued and unpaid interest. In addition, if a “make-whole fundamental change” (as defined in the Exchangeable Notes indenture (the “Exchangeable Notes Indenture”)) occurs prior to the stated maturity date, the Company will increase the exchange rate for a holder who elects to convert its notes in connection with such make-whole fundamental change in certain circumstances. MagnaChip Semiconductor S.A. may also, under certain circumstances, be required to pay additional amounts to holders of Exchangeable Notes if withholding or deduction is required in a relevant tax jurisdiction.

If the Company undergoes a fundamental change, subject to certain conditions, holders may require the Company to repurchase for cash all or part of their notes at a purchase price equal to 100% of the principal amount of the notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change purchase date. In addition, upon certain events of default described in the Exchangeable Notes Indenture, the trustee or holders of at least 25% principal amount of the Exchangeable Notes may declare 100% of the then outstanding Exchangeable Notes due and payable in full, together with all accrued and unpaid interest thereon. Payment of principal on the Exchangeable Notes may also accelerate and become automatically due and payable upon certain events of default involving bankruptcy or insolvency proceedings involving the Company, MagnaChip Semiconductor S.A. and their significant subsidiaries. The Exchangeable Notes are not redeemable at the option of MagnaChip Semiconductor S.A. prior to the maturity date.

The Exchangeable Notes Indenture contains covenants that limit the ability of the Company, MagnaChip Semiconductor S.A. and the Company’s other 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; and (ix) designate unrestricted subsidiaries.

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

The Company incurred debt issuance costs of $5,902 thousand related to the issuance of the Exchangeable Notes. The debt issuance costs are recorded as a direct deduction from the long-term borrowings in the consolidated balance sheets and amortized to interest expense using the effective interest method over the term of the Exchangeable Notes. Interest expense related to the Exchangeable Notes for year ended December 31, 2018 and 2017 was $5,678 thousand and $5,349 thousand, respectively.

In December 2018, the Company repurchased a principal amount equal to $1,590 thousand of the Exchangeable Notes in the open market, resulting in a loss of $234 thousand, which was recorded as loss on early extinguishment of long-term borrowings, net in the consolidated statements of operations of the year ended December 31, 2018.

6.625% Senior Notes

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: 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 101.656% and 100% of the principal amount of the notes redeemed on or after July 15, 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.

The Company incurred original issue discount of $1,125 thousand and debt issuance costs of $5,120 thousand related to the issuance of the 2021 Notes. The original issue discount and the debt issuance costs are recorded as a direct deduction from the long-term borrowings in the consolidated balance sheets and amortized to interest expense using the effective interest method over the term of the 2021 Notes. Interest expenses related to the 2021 Notes for the year ended December 31, 2018 and 2017 were $15,719 thousand and $15,664 thousand, respectively.

In December 2018, the Company repurchased a principal amount equal to $500 thousand of the 2021 Notes in the open market, resulting in a net gain of $28 thousand, which was recorded as loss on early extinguishment of long-term borrowings, net in the consolidated statements of operations for the year ended December 31, 2018.

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 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, 2018, 98% of all employees of the Company were eligible for severance benefits.

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

	Year Ended December 31,	
	2018	2017
Beginning balance	$149,796	$130,144
Provisions	17,644	24,373
Severance payments	(11,688)	(21,506)
Translation adjustments	(6,344)	16,785
	149,408	149,796
Less: Cumulative contributions to severance insurance deposit accounts	(2,549)	—
The National Pension Fund	(230)	(259)
Group severance insurance plan	(598)	(632)
Accrued severance benefits, net	$146,031	$148,905

The severance benefits funded through the Company's severance insurance deposit accounts, 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):

	Severance Benefit
2019	$ 582
2020	1,082
2021	1,523
2022	1,343
2023	1,802
2024 – 2028	26,316

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. 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. The 2011 Plan was amended on October 23, 2017, to revise the clawback policy of the 2011 Plan. The 2011 Plan was amended on April 26, 2018 to amend the tax withholding provisions as they relate to directed sales of shares. 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, 2018, an aggregate maximum of 8,695 thousand shares were authorized and 1,025 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 one to 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 one to 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 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.

(TABULAR DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)

The following summarizes restricted stock unit activities for the years ended December 31, 2018, 2017 and 2016.

	Number of Restricted Stock Units	Weighted Average Grant-Date Fair Value of Restricted Stock Units
Outstanding at January 1, 2016	135,370	7.72
Granted	505,689	5.71
Vested	(101,240)	7.09
Forfeited	(21,339)	6.24
Outstanding at December 31, 2016	518,480	$ 5.94
Granted	172,716	11.15
Vested	(368,555)	5.72
Forfeited	(830)	8.33
Outstanding at December 31, 2017	321,811	$ 8.99
Granted	739,231	9.64
Vested	(373,620)	9.24
Forfeited	(33,462)	10.31
Outstanding at December 31, 2018	653,960	$ 9.52

Total compensation expenses recorded for the restricted stock units were $4,096 thousand, $1,601 thousand and $2,292 thousand for the years ended December 31, 2018, 2017 and 2016, respectively. As of December 31, 2018, there was $3,234 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 1.0 year. Total fair value of restricted stock units vested were $2,647 thousand, $2,107 thousand and $717 thousand for the years ended December 31, 2018, 2017 and 2016, respectively.

The following summarizes stock option activities for the years ended December 31, 2018, 2017 and 2016. 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, 2016	3,179,899	$ 9.61	$ —	6.7 years
Granted	827,406	6.04	—	—
Forfeited	(282,537)	7.67	—	—
Exercised	(296,103)	5.85	806	—
Outstanding at December 31, 2016	3,428,665	$ 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	2,531,243	10.11	236	5.9 years
Outstanding at January 1, 2017	3,428,665	$ 9.23	$ 525	6.7 years
Granted	70,865	10.43	—	—
Forfeited	(88,443)	12.77	—	—
Exercised	(539,183)	6.94	1,540	—
Outstanding at December 31, 2017	2,871,904	$ 9.59	$6,073	6.2 years
Vested and expected to vest at December 31, 2017	2,865,475	9.59	6,050	6.2 years
Exercisable at December 31, 2017	2,395,979	10.11	4,603	5.7 years
Outstanding at January 1, 2018	2,871,904	$ 9.59	$6,073	6.2 years
Forfeited	(34,807)	10.97	—	—
Exercised	(162,341)	6.97	737	—
Outstanding at December 31, 2018	2,674,756	$ 9.73	$ 395	5.2 years
Vested and expected to vest at December 31, 2018	2,674,266	9.73	394	5.2 years
Exercisable at December 31, 2018	2,544,565	9.94	306	5.1 years

Total compensation expenses recorded for the stock options were $313 thousand, $734 thousand and $1,551 thousand for the years ended December 31, 2018, 2017 and 2016, respectively. As of December 31, 2018, there was $13 thousand of total unrecognized compensation cost related to unvested stock options, which is expected to be recognized over a weighted average future period of 0.2 years. Total weighted average grant-date fair value of vested options was $786 thousand, $794 thousand and $1,011 thousand for the years ended December 31, 2018, 2017 and 2016, respectively.

(TABULAR DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)

The Company utilizes the Black-Scholes option-pricing model to measure the fair value of each option grant. There was no grant of stock options during the year ended December 31, 2018. The following summarizes the grant-date fair value of options granted for the years ended December 31, 2017 and 2016 and assumptions used in the Black-Scholes option-pricing model on a weighted average basis. For the year ended December 31, 2017, the expected volatility was estimated using historical volatility of the Company's share prices. For the years ended December 31, 2016, it was based on historical volatility of share prices of similar public entities:

	Year Ended December 31,		
	2018	2017	2016
Grant-date fair value of option	—	$ 5.02	$ 1.54
Expected term	—	2.5 Years	2.7 Years
Risk-free interest rate	—	1.2%	1.0%
Expected volatility	—	81.7%	36.8%
Expected dividends	—	—	—

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

	Year Ended December 31,					
	2018		2017		2016	
	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	475,925	$2.19	897,421	$1.72	631,997	$2.40
Granted options during the period	—	—	70,865	5.02	827,406	1.54
Vested options during the period	(313,160)	2.51	(455,301)	1.74	(446,570)	2.26
Forfeited options during the period	(14,738)	1.73	(19,031)	1.77	(85,934)	1.88
Exercised options during the period	(17,836)	1.66	(18,029)	1.59	(29,478)	1.24
Unvested options at the end of the period	130,191	$1.54	475,925	$2.19	897,421	$1.72

13. Restructuring and Other Charges (Gain), Net

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 Company's six-inch fabrication facility in Cheongju, South Korea (the "6-inch fab") and became vacant upon the closure of the fabrication facility in February 2016. 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 in December 2016. As the Company was obligated to perform certain removal construction work, it 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. During the first quarter of 2017, the Company completed all removal construction work necessary to transfer the title of the building, and the $18,204 thousand of restricted cash was fully released. Accordingly, the Company recorded $16,635 thousand as restructuring gain in the consolidated statements of operations for the three months ended March 31, 2017.

In March 2017, the Company sold its sensor product business, which was included in and reported as part of Display Solutions line of its Standard Products Group, to a third party for proceeds of $1,295 thousand, in an effort to improve our overall profitability. The Company recorded $375 thousand net gain from this sale after deducting the book values of certain assets transferred to the buyer.

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.

14. Early Termination Charges

As of February 22, 2017, the Company's Board of Directors approved the implementation of a new headcount reduction plan (the "Headcount Reduction Plan"). As of June 30, 2017, 352 employees elected to resign from the Company during the period in which the Headcount Reduction Plan was offered. The total cash cost of approximately $31 million has been fully paid. The Company recorded in its consolidated statement of operations $11,107 thousand and $2,262 thousand in termination related charges as early termination charges for the three months ended March 31, 2017 and June 30, 2017, respectively. The remaining total estimated cost relates to statutory severance benefits, which are required by law and have already been fully accrued in the Company's financial statements.

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 loss associated with intercompany long-term loans to our Korean subsidiary. The loans are denominated in US dollars and are affected by changes in the exchange rate between the Korean won and the US dollar. As of December 31, 2018, 2017 and 2016, the outstanding intercompany loan balances including accrued interest between the Korean subsidiary and the Dutch subsidiary were $666,597 thousand, $677,267 thousand and $598,212 thousand, respectively. The Korean won to US dollar exchange rates were 1,118.1:1, 1,071.4:1 and 1,208.5:1 using the first base rate as of December 31, 2018, 2017 and 2016, 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 expenses are as follows (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Income (loss) before income tax expenses			
Domestic	$ 3,492	$27,461	$ (1,738)
Foreign	(2,743)	58,630	(24,133)
	$ 749	$86,091	$(25,871)
Current income tax expense (benefit)			
Domestic	$ (383)	$ (359)	$ (6)
Foreign	5,010	3,680	3,386
Uncertain tax position liability (domestic)	(2)	(476)	12
Uncertain tax position liability (foreign)	(46)	(1,635)	339
	4,579	1,210	3,731
Deferred income taxes expense (benefit)			
Foreign	70	(55)	13
Total income tax expenses	$ 4,649	$ 1,155	$ 3,744
Effective tax rate	620.6%	1.3%	(14.5)%

The differences between the annual effective tax rates and the US federal statutory rates of 21.0%, 35% and 35% in 2018, 2017 and 2016, respectively, 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 US, 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 statutory income tax rate of the Company’s Korean operating subsidiary was approximately 24.2% in 2018, 2017 and 2016.

The Company’s income tax expenses are primarily attributable to interest on intercompany loan balances. The increase in income tax expense for the year ended December 31, 2018 was primarily attributable to taxable income generated by the Company’s Korean subsidiary, combined with its ability to utilize net operating carryforwards for up to 70% of the taxable income, and a decrease in the Company’s uncertain tax positions that resulted in a reduction of income tax expense for the year ended December 31, 2017.

The income tax expense of $3,744 thousand for 2016 included the impact of 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. The Company’s Korean and Dutch subsidiaries agreed that the Company’s Dutch subsidiary waived and released a partial amount of unpaid interest of $174 million on its intercompany loans granted to the Company’s Korean subsidiary in order to decrease the cumulative losses of the Company’s Korean subsidiary to enhance the subsidiary’s credit standing under the local banking rules. This transaction created a taxable income for the Company’s 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 the Company’s Dutch subsidiary. This transaction also resulted in taxable loss for the Company’s 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 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,		
	2018	2017	2016
Provision computed at statutory rate	$ 157	$ 30,223	$ (9,055)
State tax	46	5,445	(1,383)
Change in statutory tax rates	1	13,438	—
Difference in foreign tax rates	377	(17,789)	3,378
Permanent differences			
Derivative assets adjustment	(1,111)	1,937	(149)
TPECs, hybrid and other interest	(5,555)	(7,526)	(10,353)
Thin capitalization	1,262	1,888	2,120
Permanent foreign currency gain (loss)	1,235	(838)	(54)
Penalty	436	4,001	689
Other permanent differences	445	633	50
Withholding tax	3,270	3,339	3,092
Foreign exchange rate adjustment	(3,725)	16,075	(1,838)
Change in valuation allowance	6,260	(56,744)	10,095
Tax credits claimed	(416)	(659)	(706)
Tax credits expired	817	2,638	1,578
Uncertain tax positions liability	(48)	(2,111)	351
Change in net operating loss carry-forwards	—	6,878	—
Others	1,198	327	5,929
Income tax expenses	$ 4,649	$ 1,155	$ 3,744

The permanent differences above include non-taxable Tracking Preferred Equity Certificates (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 $3,725 thousand tax impact to foreign exchange rate adjustment in 2018 was mainly related to the foreign exchange translation gain on the Company's Luxembourg and Dutch subsidiaries' foreign currency assets and liabilities. The Company has recorded a full valuation allowance against the deferred tax assets, net of its deferred tax liabilities, and against certain foreign subsidiaries' deferred tax assets. The $6,260 thousand tax impact to change in valuation allowance in 2018 was a result of the increase in valuation allowance against the Company's deferred tax assets. The income tax expense of $13,438 thousand in 2017 due to change in statutory tax rates was primarily related to a remeasurement of deferred tax assets and liabilities using the reduced US federal statutory rate of 21.0% from 35.0% effective January 1, 2018.

A summary of the composition of net deferred income tax assets (liabilities) as of December 31, 2018 and 2017 are as follows (in thousands):

	Year Ended December 31,	
	2018	2017
Deferred tax assets		
Inventory reserves	$ 8,274	$ 1,630
Derivative liabilities	175	—
Accrued expenses	3,210	2,826
Product warranties	67	52
Other reserves	187	356
Property, plant and equipment	1,906	9,759
Intangible assets	12	35
Accumulated severance benefits	36,166	36,245
Foreign currency translation losses	28,718	20,067
NOL carry-forwards	164,824	175,543
Tax credit	18,352	20,583
Other long-term payable	3,634	1,801
Others	5,132	3,546
Total deferred tax assets	270,657	272,443
Less: Valuation allowance	(248,633)	(251,132)
	22,024	21,311
Deferred tax liabilities		
Derivative assets	—	1,253
Foreign currency translation gain (loss)	17,777	18,187
Prepaid expense	3,612	1,464
Others	420	143
Total deferred tax liabilities	21,809	21,047
Net deferred tax assets	$ 215	$ 264
Net deferred tax assets reported in		
Other non-current assets	$ 215	$ 264

The valuation allowances at December 31, 2018 and 2017 are primarily attributable to deferred tax assets for the uncertainty in taxable income at certain of the Company's foreign subsidiaries, including its Korean operating subsidiary.

Changes in valuation allowance for deferred tax assets for the years ended December 31, 2018, 2017 and 2016 are as follows (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Beginning balance	$251,132	$281,473	$279,867
Charged to expense	7,653	(54,816)	10,095
NOL/tax credit claimed/expired	(1,393)	(1,928)	(872)
Translation adjustments	(8,759)	26,403	(7,617)
Ending balance	$248,633	$251,132	$281,473

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, 2018 and 2017, the Company had net deferred tax assets of $215 thousand and $264 thousand, respectively, mainly related to the Company's Japanese subsidiary. As of December 31, 2018, 2017 and 2016, the Company recorded a valuation allowance of $248,633 thousand, $251,132 thousand and $281,473 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, 2018, the Company had approximately $730,472 thousand of net operating loss carry-forwards available to offset future taxable income, of which $246,463 thousand is associated with the Company's Korean subsidiary, which expires in part at various dates through 2026. The net operating loss of $297,848 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 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 and substantially all of the net operating loss expires at various dates through 2038. The Company utilized net operating loss of $369 thousand, $417 thousand, and $279 thousand, for the years ended December 31, 2018, 2017 and 2016, respectively. The Company also has Korean, Dutch and US tax credit carry-forwards of approximately $4,032 thousand, $14,311 thousand and $9 thousand, respectively, as of December 31, 2018. The Korean tax credits expire at various dates starting from 2019 to 2023, and the Dutch tax credits are carried forward to be used for an indefinite period of time.

United States Tax Reform

On December 22, 2017, H.R. 1, originally known as the Tax Cuts and Jobs Act in the US was enacted (the "Tax Reform"). The Tax Reform reduces the US federal statutory rate to 21.0% from 35.0% effective January 1, 2018. The Tax Reform contains several key provisions that affect the Company's assessment on its deferred taxes, which include the remeasurement of deferred taxes, recognition of liabilities for taxes on mandatory deemed repatriations and certain other foreign income, and reassessment of the realizability of deferred tax assets. As of December 31, 2017, the Company remeasured its deferred tax assets and liabilities at the reduced rate of 21%, assessed the realizability of remeasured deferred tax assets and reduced its net deferred tax assets by $13,438 thousand in 2017.

During 2018, the Company analyzed the mandatory deemed repatriation tax and concluded that the Company has no tax liability on previously untaxed accumulated earnings and profits of its foreign subsidiaries. The Company also reviewed the other components of the Tax Reform and based on its evaluation, no material impact was recorded to the Company's consolidated financial statements for the year ended December 31, 2018.

Uncertainty in Income Taxes

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

As of December 31, 2018, 2017 and 2016, the Company recorded $426 thousand, $475 thousand and $1,768 thousand of unrecognized tax benefits, respectively.

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

	Year Ended December 31,		
	2018	2017	2016
Unrecognized tax benefits, balance at the beginning	$475	$1,768	$1,779
Additions based on tax positions related to the current year	10	10	371
Additions (reductions) for tax positions of prior years	—	(676)	317
Lapse of statute of limitations	(51)	(735)	(670)
Translation adjustments	(8)	108	(29)
Unrecognized tax benefits, balance at the ending	$426	$ 475	$1,768

The accrued interest and penalties totaled $0, $8 thousand and $691 thousand as of December 31, 2018, 2017 and 2016, 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.

Other Matter

In September 2017, the Company's Korean subsidiary was notified that the KNTS would be examining its income- and non-income-based taxes for its 2012 to 2014 tax years. The KNTS conducted its audit, primarily focusing on non-income-based VAT transactions associated with the Restatement periods.

As a result, the aggregate tax and penalty assessment by the KNTS was $6,030 thousand, of which $3,336 thousand had already been accrued by the Company in its financial statements in connection with the Restatement filed in 2015. Such amount also included $548 thousand related to employee withholding amounts and associated penalties, and to the extent any such tax obligation was that of the Company's Korean subsidiary's employees, the Company expects to seek reimbursement of the applicable amounts from those employees. In addition, KNTS assessed an administrative fine of $2,034 thousand in connection with the above-described tax audit.

During the fourth quarter of 2017, the Company recorded the $4,179 thousand related to this additional tax assessment and associated penalties and administrative fine as selling, general and administrative expenses in its consolidated statements of operations for the year ended December 31, 2017 and recorded the $548 thousand related to employee withholding amounts as other receivables in our consolidated balance sheets as of December 31, 2017 as the Company expects to seek reimbursement of the applicable amounts from those employees. Of the $548 thousand, the Company has collected $118 thousand and established an allowance of $430 thousand, which it has recorded as a selling, general and administrative expense for the three months ended September 30, 2018.

17. Geographic and Segment Information

The Company has two operating segments: its Foundry Services Group and Standard Products 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.

In January 2018, as part of the Company's ongoing portfolio optimization effort to realign business processes and streamline the Company's organizational structure, the Company transferred a portion of its non-OLED Display business from its Standard Products Group to its Foundry Services Group. The transferred non-OLED Display business has technical and business characteristics more closely aligned with the Company's Foundry Services Group business than with the Company's Standard Products Group business. The transferred non-OLED Display business previously resided within the Company's Display Solutions business line primarily as a result of a long standing customer relationship established in the past. The Company has recast comparative segment financial information to conform to this current period change. For the year ended December 31, 2017, $30,306 thousand of net sales and $6,322 thousand of gross profit were reclassified from the Display Solutions business line in the Standard Products Group to the Foundry Services Group. For the year ended December 31, 2016, $25,167 thousand of net sales and $3,660 thousand of gross profit were reclassified from the Display Solutions business line in the Standard Products Group to the Foundry Services Group.

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

	Year Ended December 31,		
	2018	2017 *As Adjusted*	2016 *As Adjusted*
Net Sales			
Foundry Services Group	$325,312	$350,395	$299,128
Standard Products Group			
Display Solutions	256,113	179,233	256,800
Power Solutions	169,284	149,836	131,468
Total Standard Products Group	425,397	329,069	388,268
All other	189	208	573
Total net sales	$750,898	$679,672	$687,969

	Year Ended December 31,		
	2018	2017 *As Adjusted*	2016 *As Adjusted*
Gross Profit			
Foundry Services Group	$ 82,578	$101,780	$ 73,072
Standard Products Group	115,478	85,905	83,534
All other	40	208	(380)
Total gross profit	$198,096	$187,893	$156,226

Upon the adoption of the new revenue standard, the Company's revenue for Foundry Services Group is disaggregated depending on the timing of revenue recognition (in thousands):

	Year Ended December 31, 2018		
	Revenue recognized at the time of shipment or delivery	Revenue recognized over time	Total
Net Sales			
Foundry Services Group	$80,578	$244,734	$325,312

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,		
	2018	2017	2016
Korea	$282,516	$279,883	$219,618
Asia Pacific (other than Korea)	380,598	322,595	391,875
U.S.A.	37,483	35,089	33,201
Europe	47,831	41,109	42,274
Others	2,470	996	1,001
Total	$750,898	$679,672	$687,969

For the years ended December 31, 2018, 2017 and 2016, the Company's net sales in Greater China (China, Hong Kong and Macau) represented 66.6%, 49.7% and 62.4%, respectively, and net sales in Taiwan represented 26.2%, 36.4% and 27.6%, respectively, of the Company's net sales in the Asia Pacific (other than Korea).

Net sales from the Company's top ten largest customers accounted for 61%, 57% and 64% for the years ended December 31, 2018, 2017 and 2016, respectively.

For the year ended December 31, 2018, the Company had two customers that represented 19.3% and 13.3% of its net sales. For the year ended December 31, 2017, the Company had one customer that represented 15.6% of its net sales. For the year ended December 31, 2016, the Company had two customers that represented 23.5% and 11.4% of its net sales, respectively.

98% of the Company's property, plant and equipment are located in Korea as of December 31, 2018.

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 $8,053 thousand, $7,498 thousand and $8,898 thousand for the years ended December 31, 2018, 2017 and 2016, respectively.

As of December 31, 2018, the minimum aggregate rental payments due under non-cancelable lease contracts are as follows (in thousands):

2019	$ 4,319
2020	3,569
2021	1,570
2022	1,319
2023	1,309
2024 and thereafter	13,978
	$26,064

Long-term Purchase Agreements

The Company purchases raw materials from a variety of vendors. During the normal course of business, in order to manage manufacturing lead times and help assure adequate supply, the Company from time to time may enter into multi-year purchase agreements, which specify future quantities and pricing of materials to be supplied by the vendors. The Company reviews the terms of the long-term supply agreements and assesses the need for any accrual for estimated losses, such as lower of cost or net realizable value that will not be recovered by future sales prices. No such accrual was required as of December 31, 2018 or 2017.

SEC Enforcement Staff Review

In March 2014, the Company voluntarily reported to the Securities and Exchange Commission, or 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 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. On May 1, 2017, the SEC announced that it had reached a final settlement with the Company, resolving the SEC's investigation. In that connection, the Company has consented, without admitting or denying the SEC's findings, to the entry of an administrative order by the SEC directing that the Company cease and desist from committing or causing any violations of certain provisions of the federal securities laws and related SEC regulations. The SEC's administrative order was entered on May 1, 2017. The SEC imposed a monetary penalty of $3,000 thousand on the Company. In the first quarter ended March 31, 2017, the Company established a reserve in that amount for the potential settlement of this matter. The reserved monetary penalty of $3,000 thousand was paid to the SEC during the second quarter of 2017. The Company also agreed to an undertaking to cooperate fully with the SEC in any and all investigations, litigations or other proceedings relating to or arising from the matters described in the SEC's order. In connection with the settlement, the SEC considered remedial acts promptly undertaken by the Company and its cooperation with the SEC staff during the course of the investigation. Among other things, as previously disclosed in the Company's filings with the SEC, the Audit Committee of the Company self-investigated and self-reported the accounting errors, selected new management and implemented various additional controls designed to prevent similar errors going forward.

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 $23,500 thousand, 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.

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.

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. 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 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.

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 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 $3,000 thousand 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. 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 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 "Shareholder Derivative Judgment") granting final approval of the proposed settlement and awarding plaintiffs' counsel $750 thousand for attorneys' fees and litigation expenses. The Shareholder Derivative 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 ($2,250 thousand plus applicable interest) 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. Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) consists of the following at December 31, 2018 and 2017, respectively (in thousands):

	Year Ended December 31,	
	2018	**2017**
Foreign currency translation adjustments	$(20,061)	$(38,413)
Derivative adjustments	(49)	5,299
Total	$(20,110)	$(33,114)

Changes in accumulated other comprehensive income (loss) for the years ended December 31, 2018, 2017 and 2016 are as follows (in thousands):

Year Ended December 31, 2018	Foreign currency translation adjustments	Derivative adjustments	Total
Beginning balance	$(38,413)	$ 5,299	$(33,114)
Other comprehensive income (loss) before reclassifications	18,352	(1,589)	16,763
Amounts reclassified from accumulated other comprehensive income	—	(3,759)	(3,759)
Net current-period other comprehensive income (loss)	18,352	(5,348)	13,004
Ending balance	$(20,061)	$ (49)	$(20,110)

Year Ended December 31, 2017	Foreign currency translation adjustments	Derivative adjustments	Total
Beginning balance	$ 14,460	$ (436)	$ 14,024
Other comprehensive income (loss) before reclassifications	(52,873)	7,736	(45,137)
Amounts reclassified from accumulated other comprehensive income	—	(2,001)	(2,001)
Net current-period other comprehensive income (loss)	(52,873)	5,735	(47,138)
Ending balance	$(38,413)	$ 5,299	$(33,114)

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

20. Earnings (Loss) per Share

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

	Year Ended December 31,		
	2018	2017	2016
	(In thousands of US dollars, except share data)		
Basic Earnings per Share			
Net income (loss)	$ (3,900)	$ 84,936	$ (29,615)
Basic weighted average common stock outstanding	34,469,921	33,943,264	34,833,967
Basic earnings (loss) per share	$ (0.11)	$ 2.50	$ (0.85)
Diluted Earnings per Share			
Net income (loss)	$ (3,900)	$ 84,936	$ (29,615)
Add back: Interest expense on Exchangeable Notes	—	5,349	—
Net income (loss) allocated to common stockholders	$ (3,900)	$ 90,285	$ (29,615)
Basic weighted average common stock outstanding	34,469,921	33,943,264	34,833,967
Net effect of dilutive equity awards	—	821,664	—
Net effect of assumed conversion of 5.0% Exchangeable Notes to common stock	—	9,990,209	—
Diluted weighted average common stock outstanding	34,469,921	44,755,137	34,833,967
Diluted earnings (loss) per share	$ (0.11)	$ 2.02	$ (0.85)

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,		
	2018	2017	2016
Options	2,674,756	835,572	3,428,665
Restricted Stock Units	699,271	—	518,480

For the year ended December 31, 2018, 10,438,187 shares of potential common stock from the assumed conversion of Exchangeable Notes was excluded from the computation of diluted loss per share as the effect was anti-dilutive for the period.

21. Unaudited Quarterly Financial Results

The following tables present selected unaudited Consolidated Statements of Operations for each quarter of the years ended December 31, 2018 and 2017.

	Fiscal Year 2018			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands of US dollars, except share data)			
Net sales	$ 165,819	$ 199,685	$ 206,000	$ 179,394
Gross profit	44,581	53,854	55,749	43,912
Operating income	7,379	13,914	18,265	7,860
Net income (loss)	$ 2,763	$ (21,505)	$ 17,222	$ (2,380)
Earnings (loss) per share:				
Basic	$ 0.08	$ (0.62)	$ 0.50	$ (0.07)
Diluted	$ 0.08	$ (0.62)	$ 0.41	$ (0.07)
Weighted average common stock outstanding:				
Basic	34,253,111	34,420,654	34,573,377	34,627,292
Diluted	35,154,693	34,420,654	46,021,610	34,627,292

	Fiscal Year 2017			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In thousands of US dollars, except share data)			
Net sales	$ 161,710	$ 166,685	$ 176,697	$ 174,580
Gross profit	41,570	46,662	50,310	49,351
Operating income	6,367	9,742	15,490	7,637
Net income (loss)	$ 43,738	$ (8,059)	$ 5,604	$ 43,653
Earnings (loss) per share:				
Basic	$ 1.30	$ (0.24)	$ 0.16	$ 1.28
Diluted	$ 1.05	$ (0.24)	$ 0.15	$ 0.99
Weighted average common stock outstanding:				
Basic	33,662,297	33,952,574	34,103,029	34,176,812
Diluted	42,892,044	33,952,574	45,542,418	45,573,889

22. Subsequent Events

Repurchase of Long-term Borrowings

In January and February 2019, the Company repurchased a principal amount equal to $250 thousand of the 2021 Notes and a principal amount equal to $920 thousand of the Exchangeable Notes.

Stock Repurchase

In January 2019, the Company repurchased 361,988 shares of its common stock at an aggregate cost of $2,346 thousand in the open market under the Company’s stock repurchase program, which was authorized by its board of directors on January 10, 2017.

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 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, 2018. 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, 2018.

(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, 2018, 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, 2018.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2018 has been audited by Samil PricewaterhouseCoopers, an independent registered public accounting firm, as stated in their report which appears in Item 8 of this Report.

(c) Changes in Internal Control Over Financial Reporting

There were no changes in internal control over financial reporting during the quarter ended December 31, 2018 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 2019 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 2019 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 2019 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 2019 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 2019 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 Report.

2. Financial Statement Schedules

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

3. Exhibits

Exhibit No.	Exhibit Description
2.1	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	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).
4.2	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).
4.3	Form of 6.625% Senior Notes due 2021 and notation of guarantee (included in Exhibit 4.1)
4.4	Indenture, dated as of January 17, 2017, among MagnaChip Semiconductor S.A., as issuer, MagnaChip Semiconductor Corporation, as guarantor, and US Bank National Association, as trustee (incorporated by reference to Exhibit 4.6 to our Annual Report on Form 10-K filed on February 21, 2017).
4.5	Form of 5.00% Exchangeable Senior Note due 2021 and note guarantee (included in Exhibit 4.4)

Exhibit No.	Exhibit Description
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).
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)).

Exhibit No.	Exhibit Description
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)).
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).

Exhibit No.	Exhibit Description
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 (as amended on April 26, 2018).
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*	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)).
10.26-1*	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).
10.26-2*#	Separation Agreement, dated as of January 9, 2019 among MagnaChip Semiconductor, Ltd. (Korea), MagnaChip Semiconductor Corporation and Tae Jong Lee.
10.27*	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)).
10.28*	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).
10.28-1*	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).
10.29*	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).
10.29-1*	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).
10.29-2*	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).
10.29-3*	Employment Agreement, dated as of April 26, 2018, by and between MagnaChip Semiconductor Corporation and Young Joon Kim (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on April 27, 2018).
10.29-4*#	Amendment to Employment Agreement by and between MagnaChip Semiconductor Corporation and Young Joon Kim, dated as of September 3, 2018.
10.29-5*	Form of Restricted Stock Units Agreement for Chief Executive Officer (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed on April 27, 2018).
10.29-6*	Form of Restricted Stock Units Agreement (TSR Performance) for Chief Executive Officer (incorporated by reference to Exhibit 10.3 to our Current Report on Form 8-K filed on April 27, 2018).

Exhibit No.	Exhibit Description
10.29-7*	Form of Restricted Stock Units Agreement (AOP Performance) for Chief Executive Officer (incorporated by reference to Exhibit 10.4 to our Current Report on Form 8-K filed on April 27, 2018).
10.30*	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).
10.30-1*	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).
10.30-2*	Employment Agreement, dated as of October 22, 2018, by and between MagnaChip Semiconductor Corporation and Theodore Kim (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on October 26, 2018).
10.31*	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).
10.31-1*	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).
10.31-2*	Employment Agreement, dated as of October 22, 2018, by and between MagnaChip Semiconductor Corporation and Woung Moo Lee (incorporated by reference to Exhibit 10.2 to our Current Report on Form 8-K filed on October 26, 2018).
10.32*	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).
10.33*	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)).
10.34*	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)).
10.35*	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)).
10.36*	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)).
10.37*	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)).
10.38*	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)).
10.39*	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).

Exhibit No.	Exhibit Description
10.40	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).
10.41*	Form of Restricted Stock Units Agreement (incorporated by reference to Exhibit 10.3 to our Current Report on Form 8-K filed on October 26, 2018).
10.42*	Form of Restricted Stock Units Agreement (TSR Performance) (incorporated by reference to Exhibit 10.4 to our Current Report on Form 8-K filed on October 26, 2018).
10.43*	Form of Restricted Stock Units Agreement (AOP Performance) (incorporated by reference to Exhibit 10.5 to our Current Report on Form 8-K filed on October 26, 2018).
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 22, 2019

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

	Date
/s/ Young-Joon Kim Young-Joon Kim, *Chief Executive Officer and Director (Principal Executive Officer)*	February 22, 2019
/s/ Jonathan W. Kim Jonathan W. Kim, *Chief Financial Officer, Executive Vice President and Chief Accounting Officer (Principal Financial and Accounting Officer)*	February 22, 2019
/s/ Melvin Keating Melvin Keating, *Director*	February 22, 2019
/s/ Ilbok Lee Ilbok Lee, *Director*	February 22, 2019
/s/ Camillo Martino Camillo Martino, *Director*	February 22, 2019
/s/ Gary Tanner Gary Tanner, *Director*	February 22, 2019
/s/ Nader Tavakoli Nader Tavakoli, *Non-Executive Chairman of the Board of Directors*	February 22, 2019