

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

FORM 10-Q

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

For the quarterly period ended June 30, 2020

or

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

For the transition period from _____ to _____.

Commission File Number: 001-34791

MagnaChip Semiconductor Corporation

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

c/o MagnaChip Semiconductor S.A.
1, Allée Scheffer, L-2520
Luxembourg, Grand Duchy of Luxembourg
(352) 45-62-62

(Address, zip code, and telephone number, including area code, of registrant's principal executive offices)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	MX	New York Stock Exchange

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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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 Exchange Act). Yes No

As of July 31, 2020, the registrant had 35,160,216 shares of common stock outstanding.

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PART I—FINANCIAL INFORMATION

Item 1. Interim Consolidated Financial Statements (Unaudited)

MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (Unaudited)

	June 30, 2020	December 31, 2019
	(In thousands of US dollars, except share data)	
Assets		
Current assets		
Cash and cash equivalents	\$ 192,824	\$ 151,657
Accounts receivable, net	48,548	47,447
Inventories, net	45,511	41,404
Other receivables	10,406	10,200
Prepaid expenses	8,598	9,003
Hedge collateral (Note 9)	11,740	9,820
Other current assets (Notes 10 and 18)	7,405	10,013
Current assets held for sale (Note 2)	205,086	99,821
Total current assets	<u>530,118</u>	<u>379,365</u>
Property, plant and equipment, net	69,110	73,068
Operating lease right-of-use assets	1,182	1,876
Intangible assets, net	2,590	2,769
Long-term prepaid expenses	2,936	5,757
Other non-current assets	9,212	9,059
Non-current assets held for sale (Note 2)	—	123,434
Total assets	<u>\$ 615,148</u>	<u>\$ 595,328</u>
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 42,366	\$ 40,376
Other accounts payable	4,049	6,410
Accrued expenses (Note 8)	45,735	44,799
Operating lease liabilities	1,053	1,625
Current portion of long-term borrowings, net	82,706	—
Other current liabilities (Note 10)	5,481	3,583
Current liabilities held for sale (Note 2)	146,569	37,040
Total current liabilities	<u>327,959</u>	<u>133,833</u>
Long-term borrowings, net	223,242	304,743
Accrued severance benefits, net	49,927	51,181
Other non-current liabilities	7,845	9,671
Non-current liabilities held for sale (Note 2)	—	110,881
Total liabilities	<u>608,973</u>	<u>610,309</u>
Commitments and contingencies (Note 18)		
Stockholders' equity		
Common stock, \$0.01 par value, 150,000,000 shares authorized, 44,248,706 shares issued and 35,143,033 outstanding at June 30, 2020 and 43,851,991 shares issued and 34,800,312 outstanding at December 31, 2019	443	439
Additional paid-in capital	155,591	152,404
Accumulated deficit	(52,709)	(58,131)
Treasury stock, 9,105,673 shares at June 30, 2020 and 9,051,679 shares at December 31, 2019, respectively	(107,649)	(107,033)
Accumulated other comprehensive income (loss)	10,499	(2,660)
Total stockholders' equity (deficit)	<u>6,175</u>	<u>(14,981)</u>
Total liabilities and stockholders' equity	<u>\$ 615,148</u>	<u>\$ 595,328</u>

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

MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
	(In thousands of US dollars, except share data)			
Revenues:				
Net sales – standard products business	\$ 108,955	\$ 132,006	\$ 219,691	\$ 232,270
Net sales – transitional Fab 3 foundry services	9,873	8,879	19,610	15,882
Total revenues	<u>118,828</u>	<u>140,885</u>	<u>239,301</u>	<u>248,152</u>
Cost of sales:				
Cost of sales – standard products business	76,817	100,384	158,423	181,625
Cost of sales – transitional Fab 3 foundry services	9,873	8,879	19,610	15,882
Total cost of sales	<u>86,690</u>	<u>109,263</u>	<u>178,033</u>	<u>197,507</u>
Gross profit	32,138	31,622	61,268	50,645
Operating expenses:				
Selling, general and administrative expenses	12,408	11,095	24,510	23,131
Research and development expenses	11,108	11,772	21,617	23,816
Other charges	—	—	554	—
Total operating expenses	<u>23,516</u>	<u>22,867</u>	<u>46,681</u>	<u>46,947</u>
Operating income:	<u>8,622</u>	<u>8,755</u>	<u>14,587</u>	<u>3,698</u>
Interest expense	(5,430)	(5,439)	(11,037)	(11,076)
Foreign currency gain (loss), net	8,469	(11,571)	(22,502)	(22,181)
Loss on early extinguishment of long-term borrowings, net	—	—	—	(42)
Other income, net	791	551	1,629	1,138
Income (loss) from continuing operations before income tax expense	12,452	(7,704)	(17,323)	(28,463)
Income tax expense	678	786	1,981	1,582
Income (loss) from continuing operations	11,774	(8,490)	(19,304)	(30,045)
Income (loss) from discontinued operations, net of tax	17,397	(1,030)	24,726	(13,600)
Net income (loss)	<u>\$ 29,171</u>	<u>\$ (9,520)</u>	<u>\$ 5,422</u>	<u>\$ (43,645)</u>
Basic earnings (loss) per common share—				
Continuing operations	\$ 0.34	\$ (0.25)	\$ (0.55)	\$ (0.88)
Discontinued operations	0.50	(0.03)	0.71	(0.40)
Total	<u>\$ 0.84</u>	<u>\$ (0.28)</u>	<u>\$ 0.16</u>	<u>\$ (1.28)</u>
Diluted earnings (loss) per common share—				
Continuing operations	\$ 0.28	\$ (0.25)	\$ (0.55)	\$ (0.88)
Discontinued operations	0.37	(0.03)	0.71	(0.40)
Total	<u>\$ 0.65</u>	<u>\$ (0.28)</u>	<u>\$ 0.16</u>	<u>\$ (1.28)</u>
Weighted average number of shares—				
Basic	35,092,312	34,245,127	34,992,734	34,220,141
Diluted	46,474,237	34,245,127	34,992,734	34,220,141

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

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

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>June 30,</u> <u>2020</u>	<u>June 30,</u> <u>2019</u>	<u>June 30,</u> <u>2020</u>	<u>June 30,</u> <u>2019</u>
	(In thousands of US dollars)			
Net income (loss)	\$29,171	\$(9,520)	\$ 5,422	\$(43,645)
Other comprehensive income (loss)				
Foreign currency translation adjustments	(6,543)	7,680	15,708	14,984
Derivative adjustments				
Fair valuation of derivatives	2,204	(2,499)	(2,800)	(2,900)
Reclassification adjustment for loss on derivatives included in net income (loss)	193	1,864	251	1,953
Total other comprehensive income (loss)	(4,146)	7,045	13,159	14,037
Total comprehensive income (loss)	<u>\$25,025</u>	<u>\$(2,475)</u>	<u>\$18,581</u>	<u>\$(29,608)</u>

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

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

(In thousands of US dollars, except share data)	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount					
Three Months Ended June 30, 2020:							
Balance at March 31, 2020	35,054,682	\$ 442	\$ 153,286	\$ (81,880)	\$(107,649)	\$ 14,645	\$(21,156)
Stock-based compensation	—	—	1,643	—	—	—	1,643
Exercise of stock options	88,351	1	662	—	—	—	663
Other comprehensive loss, net	—	—	—	—	—	(4,146)	(4,146)
Net income	—	—	—	29,171	—	—	29,171
Balance at June 30, 2020	<u>35,143,033</u>	<u>\$ 443</u>	<u>\$ 155,591</u>	<u>\$ (52,709)</u>	<u>\$(107,649)</u>	<u>\$ 10,499</u>	<u>\$ 6,175</u>
Three Months Ended June 30, 2019:							
Balance at March 31, 2019	34,223,502	\$ 433	\$ 143,315	\$ (70,430)	\$(106,511)	\$ (13,118)	\$(46,311)
Stock-based compensation	—	—	772	—	—	—	772
Exercise of stock options	15,934	0	101	—	—	—	101
Settlement of restricted stock units	1,040	0	(0)	—	—	—	—
Acquisition of treasury stock	(295)	—	—	—	(3)	—	(3)
Other comprehensive income, net	—	—	—	—	—	7,045	7,045
Net loss	—	—	—	(9,520)	—	—	(9,520)
Balance at June 30, 2019	<u>34,240,181</u>	<u>\$ 433</u>	<u>\$ 144,188</u>	<u>\$ (79,950)</u>	<u>\$(106,514)</u>	<u>\$ (6,073)</u>	<u>\$(47,916)</u>
(In thousands of US dollars, except share data)	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount					
Six Months Ended June 30, 2020:							
Balance at December 31, 2019	34,800,312	\$ 439	\$ 152,404	\$ (58,131)	\$(107,033)	\$ (2,660)	\$(14,981)
Stock-based compensation	—	—	2,528	—	—	—	2,528
Exercise of stock options	88,351	1	662	—	—	—	663
Settlement of restricted stock units	308,364	3	(3)	—	—	—	—
Acquisition of treasury stock	(53,994)	—	—	—	(616)	—	(616)
Other comprehensive income, net	—	—	—	—	—	13,159	13,159
Net income	—	—	—	5,422	—	—	5,422
Balance at June 30, 2020	<u>35,143,033</u>	<u>\$ 443</u>	<u>\$ 155,591</u>	<u>\$ (52,709)</u>	<u>\$(107,649)</u>	<u>\$ 10,499</u>	<u>\$ 6,175</u>
Six Months Ended June 30, 2019:							
Balance at December 31, 2018	34,441,232	\$ 431	\$ 142,600	\$ (36,305)	\$(103,926)	\$ (20,110)	\$(17,310)
Stock-based compensation	—	—	1,441	—	—	—	1,441
Exercise of stock options	24,558	0	149	—	—	—	149
Settlement of restricted stock units	168,493	2	(2)	—	—	—	—
Acquisition of treasury stock	(394,102)	—	—	—	(2,588)	—	(2,588)
Other comprehensive income, net	—	—	—	—	—	14,037	14,037
Net loss	—	—	—	(43,645)	—	—	(43,645)
Balance at June 30, 2019	<u>34,240,181</u>	<u>\$ 433</u>	<u>\$ 144,188</u>	<u>\$ (79,950)</u>	<u>\$(106,514)</u>	<u>\$ (6,073)</u>	<u>\$(47,916)</u>

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

MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Six Months Ended	
	June 30, 2020	June 30, 2019
(In thousands of US dollars)		
Cash flows from operating activities		
Net income (loss)	\$ 5,422	\$ (43,645)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization	10,479	16,505
Provision for severance benefits	10,179	6,406
Amortization of debt issuance costs and original issue discount	1,205	1,134
Loss on foreign currency, net	26,397	24,609
Restructuring and other charges	141	732
Provision for inventory reserves	2,033	8,940
Stock-based compensation	2,528	1,441
Loss on early extinguishment of long-term borrowings, net	—	42
Other	(111)	(494)
Changes in operating assets and liabilities		
Accounts receivable, net	(438)	(20,974)
Unbilled accounts receivable, net	10,933	6,201
Inventories	(14,060)	(7,351)
Other receivables	67	(2,969)
Other current assets	4,747	5,929
Accounts payable	4,947	32,137
Other accounts payable	(5,898)	(3,960)
Accrued expenses	161	2,880
Other current liabilities	1,220	(7,491)
Other non-current liabilities	1,238	1,716
Payment of severance benefits	(4,272)	(4,579)
Other	147	(54)
Net cash provided by operating activities	<u>57,065</u>	<u>17,155</u>
Cash flows from investing activities		
Proceeds from settlement of hedge collateral	5,855	4,627
Payment of hedge collateral	(7,841)	(8,395)
Purchase of property, plant and equipment	(8,842)	(15,000)
Payment for intellectual property registration	(473)	(642)
Collection of guarantee deposits	47	388
Payment of guarantee deposits	(571)	(1,330)
Other	21	193
Net cash used in investing activities	<u>(11,804)</u>	<u>(20,159)</u>
Cash flows from financing activities		
Repurchase of long-term borrowings	—	(1,175)
Proceeds from exercise of stock options	663	149
Acquisition of treasury stock	(1,021)	(2,588)
Repayment of financing related to water treatment facility arrangement	(267)	(281)
Repayment of principal portion of finance lease liabilities	(119)	(118)
Net cash used in financing activities	<u>(744)</u>	<u>(4,013)</u>
Effect of exchange rates on cash and cash equivalents	<u>(3,350)</u>	<u>(1,668)</u>
Net increase (decrease) in cash and cash equivalents	<u>41,167</u>	<u>(8,685)</u>
Cash and cash equivalents		
Beginning of the period	151,657	132,438
End of the period	<u>\$ 192,824</u>	<u>\$ 123,753</u>
Supplemental cash flow information		
Cash paid for interest	<u>\$ 9,522</u>	<u>\$ 9,549</u>
Cash paid for income taxes	<u>\$ 1,889</u>	<u>\$ 1,881</u>
Non-cash investing activities		
Property, plant and equipment additions in other accounts payable	<u>\$ 602</u>	<u>\$ 687</u>

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

MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(TABULAR DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)**

1. Business, Basis of Presentation and 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.

On March 30, 2020, the Company entered into a definitive Business Transfer Agreement (the “BTA”) for the sale of its Foundry Services Group business and its fabrication facility located in Cheongju (“Fab 4”), the larger of the Company’s two 8-inch manufacturing facilities, to Magnus Semiconductor, LLC, a Korean limited liability company, or one of its wholly owned subsidiaries (the “Buyer”) for a purchase price equal to the KRW equivalent of \$344.7 million in cash, subject to working capital adjustments set forth in the BTA. The Buyer is a special purpose company formed by Alchemist Capital Partners Korea Co., Ltd. and Credian Partners, Inc. This planned divestiture of the Foundry Services Group business and Fab 4 will allow the Company to strategically shift its operational focus to its standard products business. The Foundry Services Group was historically a reportable segment. As a result of the entry into the BTA, the results of the Foundry Services Group were classified as discontinued operations in the Company’s consolidated statements of operations and excluded from both continuing operations and segment results for all periods presented. Accordingly, commencing with the first quarter of 2020, the Company has one reportable segment: its standard products business, together with transitional foundry services associated with its fabrication facility located in Gumi, Korea, known as “Fab 3,” that it expects to perform for the Buyer for a period of up to three years (the “Transitional Fab 3 Foundry Services”). The Company’s standard products business includes its Display Solutions and Power Solutions business lines. 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 accompanying unaudited interim consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles in the United States of America (“US GAAP”). These interim consolidated financial statements include normal recurring adjustments and the elimination of all intercompany accounts and transactions which are, in the opinion of management, necessary to provide a fair statement of the Company’s financial condition and results of operations for the periods presented. These interim consolidated financial statements are presented in accordance with Accounting Standards Codification 270, “Interim Reporting” and, accordingly, do not include all of the information and note disclosures required by US GAAP for complete financial statements, except for the changes below. The results of operations for the three and six months ended June 30, 2020 are not necessarily indicative of the results to be expected for a full year or for any other periods.

The Company has reclassified certain prior year amounts to conform to the current year’s presentation for discontinued operations to reflect the anticipated divestiture of its Foundry Services Group business and Fab 4. The assets to be acquired and liabilities to be transferred to the Buyer, as specified in the BTA, have been classified as assets and liabilities held for sale in the Company’s consolidated balance sheets, subject to adjustments set forth in the BTA. See Note 2 “Discontinued Operations and Assets Held for Sale” for additional information. The consolidated statements of cash flows have not been adjusted to separately disclose cash flows related to discontinued operations, but the material items in the operating and investing activities of cash flows relating to discontinued operations are disclosed in Note 2. Unless otherwise stated, information in these notes to consolidated financial statements relates to the Company’s continuing operations and excludes the discontinued operations.

There have been no material changes to the Company’s significant accounting policies as of and for the three and six months ended June 30, 2020, except for those related to discontinued operations and assets held for sale as described below, as compared to the significant accounting policies described in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2019.

Discontinued Operations and Assets Held for Sale

The Company reports the results of operations of a business as discontinued operations if a disposal represents a strategic shift that has or will have a major effect on the Company's operations and financial results when the business is sold and classified as held for sale, in accordance with the criteria of Accounting Standard Codification ("ASC") 205, "Presentation of Financial Statements" ("ASC 205") and ASC 360, "Property, Plant and Equipment" ("ASC 360"). Assets and liabilities of a business classified as held for sale are recorded at the lower of its carrying amount or estimated fair value less costs to sell, and depreciation and amortization ceases on the date that the held for sale criteria are met. If the carrying amount of the business exceeds its estimated fair value less costs to sell, a loss is recognized. Assets and liabilities related to discontinued operations classified as held for sale are segregated in the current and prior balance sheets in the period in which the business is classified as held for sale. The results of discontinued operations are reported in "Income (loss) from discontinued operations, net of tax" in the accompanying consolidated statements of operations for the current and prior periods commencing in the period in which the business meets the criteria.

Recent Accounting Pronouncements Not Yet Adopted

In December 2019, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes" ("ASU 2019-12"). ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and improves consistent application of and simplifies GAAP for other areas of Topic 740 by clarifying and amending existing guidance. ASU 2019-12 is effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. The Company does not expect the adoption of ASU 2019-12 to have a material effect on the Company's consolidated financial statements.

Recently Adopted Accounting Pronouncements

In June 2016, the FASB issued Accounting Standards Update No. 2016-13, "Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"). ASU 2016-13 amends the impairment model by requiring entities to use a forward-looking approach based on expected losses to estimate credit losses on certain types of financial instruments, including trade receivables. In April 2019, the FASB issued Accounting Standards Update No. 2019-04, "Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments" ("ASU 2019-04"), and in November 2019, the FASB issued Accounting Standards Update No. 2019-11, "Codification Improvements to Topic 326, Financial Instruments—Credit Losses" ("ASU 2019-11") to clarify and address certain items related to the amendments in ASU 2016-13. In February 2020, the FASB issued Accounting Standards Update No. 2020-02, "Financial Instruments—Credit Losses (Topic 326)" ("ASU 2020-02"), which incorporates SEC SAB 119 (updated from SAB 102) into the ASC by aligning SEC recommended policies and procedures with ASC 326. The Company adopted ASU 2016-13, ASU 2019-04, ASU 2019-11 and ASU 2020-02 as of January 1, 2020, and the adoption did not have a material impact on the Company's consolidated financial statements. In August 2018, the 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. The Company adopted ASU 2018-13 as of January 1, 2020, and the adoption of ASU 2018-13 did not impact the Company's consolidated financial statements.

2. Discontinued Operations and Assets Held for Sale

On March 30, 2020, the Company entered into the BTA for the sale of its Foundry Services Group business and Fab 4. Following the consummation of the sale, and for up to three years, the Company is expected to provide the Transitional Fab 3 Foundry Services. For the periods prior to the closing of the sale, revenue from providing the Transitional Fab 3 Foundry Services to the Foundry Services Group is recorded at cost on both of the continuing and discontinued businesses. The sale is expected to close in the third quarter of 2020, subject to customary closing conditions.

The following table summarizes the results from discontinued operations, net of tax, for the three and six months ended June 30, 2020 and 2019.

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>June 30,</u> <u>2020</u>	<u>June 30,</u> <u>2019</u>	<u>June 30,</u> <u>2020</u>	<u>June 30,</u> <u>2019</u>
	(In thousands of US dollars, except share data)			
Revenues:				
Net sales – Foundry Services Group	\$95,779	\$73,139	\$182,058	\$130,255
Net sales – transitional Fab 3 foundry services	(9,873)	(8,879)	(19,610)	(15,882)
Total revenues	<u>85,906</u>	<u>64,260</u>	<u>162,448</u>	<u>114,373</u>
Cost of sales:				
Cost of sales – Foundry Services Group	64,869	60,921	130,452	114,359
Cost of sales – transitional Fab 3 foundry services	(9,873)	(8,879)	(19,610)	(15,882)
Total cost of sales	<u>54,996</u>	<u>52,042</u>	<u>110,842</u>	<u>98,477</u>
Gross profit	30,910	12,218	51,606	15,896
Operating expenses:				
Selling, general and administrative expenses	4,992	5,880	10,636	11,914
Research and development expenses	6,915	7,217	14,318	15,191
Restructuring and other charges	589	1,130	2,704	4,024
Total operating expenses	<u>12,496</u>	<u>14,227</u>	<u>27,658</u>	<u>31,129</u>
Operating income (loss) from discontinued operations	<u>18,414</u>	<u>(2,009)</u>	<u>23,948</u>	<u>(15,233)</u>
Foreign currency gain (loss), net	(23)	1,140	2,074	1,753
Others, net	(59)	(135)	48	(49)
Income (loss) from discontinued operations before income tax expense	18,332	(1,004)	26,070	(13,529)
Income tax expense	935	26	1,344	71
Income (loss) from discontinued operations, net of tax	<u><u>17,397</u></u>	<u><u>(1,030)</u></u>	<u><u>24,726</u></u>	<u><u>(13,600)</u></u>

For the three months ended June 30, 2020 and 2019, the Company recorded \$589 thousand and \$1,130 thousand, respectively, and for the six months ended June 30, 2020 and 2019, the Company recorded \$2,704 thousand and \$1,873 thousand, respectively, in professional fees incurred in connection with the Foundry Services Group business and Fab 4, and recorded such costs as restructuring and other charges in the above. For the six months ended June 30, 2019, the Company also recorded in the same line a \$2,151 thousand restructuring-related charge to its fab employees.

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The following table provides a reconciliation of the aggregate carrying amounts of major classes of assets and liabilities relating to the Foundry Services Group business and Fab 4, which are included in assets and liabilities held for sale in the accompanying consolidated balance sheets for each of the periods presented:

	June 30, 2020	December 31, 2019
	(In thousands of US dollars)	
Assets		
Current assets		
Accounts receivable, net	\$ 42,789	\$ 48,194
Unbilled accounts receivable	5,936	16,463
Inventories, net	36,602	31,863
Other current assets	2,933	3,301
Other assets of the disposal group classified as held for sale	683	—
Total current assets held for sale	<u>\$ 88,943</u>	<u>\$ 99,821</u>
Property, plant and equipment, net	103,887	109,506
Intangible assets, net	1,350	1,245
Other non-current assets	10,906	12,683
Total assets held for sale	<u>\$ 205,086</u>	<u>\$ 223,255</u>
Liabilities		
Current liabilities		
Accounts payable	\$ 21,530	\$ 20,503
Other current liabilities	14,266	16,537
Total current liabilities held for sale	<u>\$ 35,796</u>	<u>\$ 37,040</u>
Accrued severance benefits, net	97,485	95,547
Other non-current liabilities	13,288	15,334
Total liabilities held for sale	<u>\$ 146,569</u>	<u>\$ 147,921</u>

As of June 30, 2020, all assets and liabilities held for sale are classified as current on the consolidated balance sheets based on the anticipated date of disposal of the Foundry Services Group business and Fab 4.

The following table provides supplemental cash flows information related to discontinued operations:

	Six Months Ended	
	June 30, 2020	June 30, 2019
	(In thousands of US dollars)	
Significant non-cash operating activities:		
Depreciation and amortization	\$ 5,365	\$ 11,403
Provision for severance benefits	6,405	3,763
Stock-based compensation	263	210
Investing activities:		
Capital expenditures	\$ (4,415)	\$ (8,262)

3. Sales of Accounts Receivable and Receivable Discount Program

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. There was no sale of these accounts receivable for the six months ended June 30, 2020. For the six months ended June 30, 2019, the proceeds from the sales of these accounts receivable totaled \$13,637 thousand and these sales resulted in pre-tax losses of \$42 thousand, which are included in selling, general and administrative expenses in the consolidated statements of operations. Net proceeds of this 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 June 30, 2020 and December 31, 2019 consist of the following (in thousands):

	June 30, 2020	December 31, 2019
Finished goods	\$11,252	\$ 10,087
Semi-finished goods and work-in-process	32,196	28,815
Raw materials	6,627	8,449
Materials in-transit	743	—
Less: inventory reserve	(5,307)	(5,947)
Inventories, net	<u>\$45,511</u>	<u>\$ 41,404</u>

Changes in inventory reserve for the three and six months ended June 30, 2020 and 2019 are as follows (in thousands):

	Three Months Ended June 30, 2020	Six Months Ended June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2019
Beginning balance	\$ (4,807)	\$ (5,947)	\$ (8,690)	\$ (4,845)
Change in reserve				
Inventory reserve charged to costs of sales	(1,794)	(3,069)	(4,374)	(9,447)
Sale of previously reserved inventory	747	1,653	490	966
	(1,047)	(1,416)	(3,884)	(8,481)
Write off	642	1,141	624	1,216
Translation adjustments	(95)	221	168	328
Reclassified to assets held for sale	—	694	—	—
Ending balance	<u>\$ (5,307)</u>	<u>\$ (5,307)</u>	<u>\$ (11,782)</u>	<u>\$ (11,782)</u>

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

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5. Property, Plant and Equipment

Property, plant and equipment as of June 30, 2020 and December 31, 2019 are comprised of the following (in thousands):

	June 30, 2020	December 31, 2019
Buildings and related structures	\$ 21,938	\$ 22,502
Machinery and equipment	87,505	89,453
Finance lease right-of-use assets	312	323
Others	23,360	22,242
	<u>133,115</u>	<u>134,520</u>
Less: accumulated depreciation	(77,747)	(75,704)
Land	13,742	14,252
Property, plant and equipment, net	<u>\$ 69,110</u>	<u>\$ 73,068</u>

Aggregate depreciation expenses totaled \$4,794 thousand and \$4,815 thousand for the six months ended June 30, 2020 and 2019, respectively.

Concurrent with the execution of the BTA, the Company executed a factory (kun) mortgage agreement under which the real property owned by the Company in respect of the Fab 3 fabrication facility located in Gumi, Korea and other material assets located in, attached to or forming part of such facility were pledged as collateral for purposes of securing the payment of its termination fee of \$34,470 thousand under the BTA. The Company has a right to replace the factory (kun) mortgage at any time with a deposit of \$34,470 thousand cash into escrow.

6. Intangible Assets

Intangible assets as of June 30, 2020 and December 31, 2019 are comprised of the following (in thousands):

	June 30, 2020		
	Gross amount	Accumulated amortization	Net amount
Technology	\$ 6,340	\$ (6,340)	\$ —
Customer relationships	9,816	(9,816)	—
Intellectual property assets	8,555	(5,965)	2,590
Intangible assets, net	<u>\$24,711</u>	<u>\$ (22,121)</u>	<u>\$2,590</u>
	December 31, 2019		
	Gross amount	Accumulated amortization	Net amount
Technology	\$ 6,575	\$ (6,575)	\$ —
Customer relationships	10,180	(10,180)	—
Intellectual property assets	8,637	(5,868)	2,769
Intangible assets, net	<u>\$25,392</u>	<u>\$ (22,623)</u>	<u>\$2,769</u>

Aggregate amortization expenses for intangible assets totaled \$320 thousand and \$287 thousand for the six months ended June 30, 2020 and 2019, respectively.

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7. Leases

The Company has operating and finance leases for buildings and other assets such as vehicles and office equipment. The Company's leases have remaining lease terms ranging from 1 year to 4 years.

The tables below present financial information related to the Company's leases.

The Company adopted the new lease accounting standard as of January 1, 2019, using the modified retrospective transition method. The tables below present financial information related to the Company's leases

Supplemental balance sheets information related to leases as of June 30, 2020 and December 31, 2019 are as follows (in thousands):

<u>Leases</u>	<u>Classification</u>	<u>June 30, 2020</u>	<u>December 31, 2019</u>
Assets			
Operating lease	Operating lease right-of-use assets	\$ 1,182	\$ 1,876
Finance lease	Property, plant and equipment, net	218	258
Total lease assets		<u>\$ 1,400</u>	<u>\$ 2,134</u>
Liabilities			
Current			
Operating	Operating lease liabilities	\$ 1,053	\$ 1,625
Finance	Other current liabilities	60	60
Non-current			
Operating	Other non-current liabilities	129	251
Finance	Other non-current liabilities	170	208
Total lease liabilities		<u>\$ 1,412</u>	<u>\$ 2,144</u>

The following table presents the weighted average remaining lease term and discount rate:

	<u>June 30, 2020</u>	<u>December 31, 2019</u>
Weighted average remaining lease term		
Operating leases	1.0 years	1.1 years
Finance leases	3.5 years	4.0 years
Weighted average discount rate		
Operating leases	7.01%	7.19%
Finance leases	7.75%	7.75%

The components of lease cost included in the Company's consolidated statements of operations, are as follows (in thousands):

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Operating lease cost	\$ 461	\$ 501	\$ 929	\$ 1,026
Finance lease cost				
Amortization of right-of-use assets	15	16	31	33
Interest on lease liabilities	4	6	9	12
Total lease cost	<u>\$ 480</u>	<u>\$ 523</u>	<u>\$ 969</u>	<u>\$ 1,071</u>

The above table does not include an immaterial cost of short-term leases for the three and six months ended June 30, 2020 and 2019.

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Other lease information is as follows (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Cash paid for amounts included in the measurement of lease liabilities				
Operating cash flows from operating leases	\$ 461	\$ 501	\$ 929	\$ 1,026
Operating cash flows from finance leases	4	6	9	12
Financing cash flows from finance leases	14	14	28	28

The aggregate future lease payments for operating and finance leases as of June 30, 2020 are as follows (in thousands):

	Operating Leases	Finance Leases
2020	\$ 820	\$ 37
2021	335	75
2022	58	75
2023	14	75
Thereafter	—	—
Total future lease payments	1,227	262
Less: Imputed interest	(45)	(32)
Present value of future payments	<u>\$ 1,182</u>	<u>\$ 230</u>

8. Accrued Expenses

Accrued expenses as of June 30, 2020 and December 31, 2019 are comprised of the following (in thousands):

	June 30, 2020	December 31, 2019
Payroll, benefits and related taxes, excluding severance benefits	\$ 10,165	\$ 8,493
Withholding tax attributable to intercompany interest income	24,457	23,371
Interest on senior notes	8,205	8,205
Outside service fees	922	1,996
Others	1,986	2,734
Accrued expenses	<u>\$ 45,735</u>	<u>\$ 44,799</u>

9. 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 June 30, 2020 are as follows (in thousands):

<u>Date of transaction</u>	<u>Type of derivative</u>	<u>Total notional amount</u>	<u>Month of settlement</u>
December 4, 2019	Zero cost collar	\$ 30,000	July 2020 to December 2020
January 31, 2020	Zero cost collar	\$ 30,000	July 2020 to December 2020
February 3, 2020	Zero cost collar	\$ 18,000	July 2020 to December 2020
February 21, 2020	Zero cost collar	\$ 30,000	July 2020 to December 2020

Details of derivative contracts as of December 31, 2019 are as follows (in thousands):

<u>Date of transaction</u>	<u>Type of derivative</u>	<u>Total notional amount</u>	<u>Month of settlement</u>
August 13, 2019	Zero cost collar	\$ 60,000	January 2020 to June 2020
September 27, 2019	Zero cost collar	\$ 42,000	January 2020 to June 2020
December 4, 2019	Zero cost collar	\$ 30,000	July 2020 to December 2020

The zero cost collar contracts qualify as cash flow hedges under ASC 815, "Derivatives and Hedging," since at both the inception of the contracts and on an ongoing basis, the hedging relationship was and is expected to be highly effective in achieving offsetting cash flows attributable to the hedged risk during the term of the contracts.

The fair values of the Company's outstanding zero cost collar contracts recorded as assets and liabilities as of June 30, 2020 and December 31, 2019 are as follows (in thousands):

<u>Derivatives designated as hedging instruments:</u>		<u>June 30, 2020</u>	<u>December 31, 2019</u>
<u>Asset Derivatives:</u>			
Zero cost collars	Other current assets	\$ —	\$ 1,456
<u>Liability Derivatives:</u>			
Zero cost collars	Other current liabilities	\$ 1,188	\$ —

Offsetting of derivative liabilities as of June 30, 2020 is as follows (in thousands):

<u>As of June 30, 2020</u>	<u>Gross amounts of recognized liabilities</u>	<u>Gross amounts offset in the balance sheets</u>	<u>Net amounts of liabilities presented in the balance sheets</u>	<u>Gross amounts not offset in the balance sheets</u>		<u>Net amount</u>
				<u>Financial instruments</u>	<u>Cash collateral pledged</u>	
<u>Liability Derivatives:</u>						
Zero cost collars	\$ 1,188	\$ —	\$ 1,188	\$ —	\$ (1,190)	\$ (2)

Offsetting of derivative assets as of December 31, 2019 is as follows (in thousands):

<u>As of December 31, 2019</u>	<u>Gross amounts of recognized assets</u>	<u>Gross amounts offset in the balance sheets</u>	<u>Net amounts of assets presented in the balance sheets</u>	<u>Gross amounts not offset in the balance sheets</u>		<u>Net amount</u>
				<u>Financial instruments</u>	<u>Cash collateral pledged</u>	
<u>Asset Derivatives:</u>						
Zero cost collars	\$ 1,456	\$ —	\$ 1,456	\$ —	\$ 1,070	\$ 2,526

For derivative instruments that are designated and qualify as cash flow hedges, gains or losses on the derivative aside from components excluded from the assessment of effectiveness are 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 hedge components excluded from the assessment of effectiveness, are recognized in current earnings.

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The following table summarizes the impact of derivative instruments on the consolidated statements of operations for the three months ended June 30, 2020 and 2019 (in thousands):

Derivatives in ASC 815 Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion)		Location/Amount of Loss Reclassified from AOCI Into Statement of Operations (Effective Portion)	Location/Amount of Gain (Loss) Recognized in Statement of Operations on Derivatives (Ineffective Portion)				
	Three Months Ended June 30,			Three Months Ended June 30,				
	2020	2019		2020	2019			
Zero cost collars	\$ 2,204	\$ (1,136)	Net sales	\$ (193)	\$ (203)	Other income, net	\$ 55	\$ (11)
Forwards	\$ —	\$ (1,363)	Net sales	\$ —	\$ (1,661)	Other income, net	\$ —	\$ (69)
	<u>\$ 2,204</u>	<u>\$ (2,499)</u>		<u>\$ (193)</u>	<u>\$ (1,864)</u>		<u>\$ 55</u>	<u>\$ (80)</u>

The following table summarizes the impact of derivative instruments on the consolidated statements of operations for the six months ended June 30, 2020 and 2019 (in thousands):

Derivatives in ASC 815 Cash Flow Hedging Relationships	Amount of Loss Recognized in AOCI on Derivatives (Effective Portion)		Location/Amount of Loss Reclassified from AOCI Into Statement of Operations (Effective Portion)	Location/Amount of Gain (Loss) Recognized in Statement of Operations on Derivatives (Ineffective Portion)				
	Six Months Ended June 30,			Six Months Ended June 30,				
	2020	2019		2020	2019			
Zero cost collars	\$ (2,800)	\$ (1,102)	Net sales	\$ (251)	\$ (203)	Other income, net	\$ 172	\$ (11)
Forwards	\$ —	\$ (1,798)	Net sales	\$ —	\$ (1,750)	Other income, net	\$ —	\$ (125)
	<u>\$ (2,800)</u>	<u>\$ (2,900)</u>		<u>\$ (251)</u>	<u>\$ (1,953)</u>		<u>\$ 172</u>	<u>\$ (136)</u>

As of June 30, 2020, the amount expected to be reclassified from accumulated other comprehensive income into loss within the next twelve months is \$1,004 thousand.

The Company set aside \$10,550 thousand and \$8,750 thousand of cash deposits to the counterparties, Nomura Financial Investment (Korea) Co., Ltd. (“NFIK”) and Deutsche Bank AG, Seoul Branch (“DB”), as required for the zero cost collar contracts outstanding as of June 30, 2020 and December 31, 2019, 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 and DB for any exposure in excess of \$500 thousand, and \$1,190 thousand and \$1,070 thousand of additional cash collateral were required and recorded as hedge collateral on the consolidated balance sheets as of June 30, 2020 and December 31, 2019, respectively.

These forward and zero cost collar contracts may be terminated by the counterparty in a number of circumstances, including if the Company’s borrowing rating falls below B-/B3 or if the Company’s total cash and cash equivalents is less than \$30,000 thousand at the end of a fiscal quarter, unless a waiver is obtained from the counterparty.

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10. Fair Value Measurements

Fair Value of Financial Instruments

As of June 30, 2020, 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 June 30, 2020	Fair Value Measurement June 30, 2020	Quoted Prices in Active Markets for Identical liability (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities:					
Derivative liabilities (other current liabilities)	\$ 1,188	\$ 1,188	—	\$ 1,188	—

As of December 31, 2019, 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, 2019	Fair Value Measurement December 31, 2019	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)	\$ 1,456	\$ 1,456	—	\$ 1,456	—

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 Borrowings

	June 30, 2020		December 31, 2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
(In thousands of US dollars)				
Borrowings:				
5.0% Exchangeable Senior Notes due March 2021 (Level 2)	\$ 82,706	\$ 103,838	\$ 81,959	\$ 116,078
6.625% Senior Notes due July 2021 (Level 2)	\$ 223,242	\$ 218,644	\$ 222,784	\$ 224,250

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 and February 2019, MagnaChip Semiconductor S.A. repurchased a principal amount equal to \$1,590 thousand and \$920 thousand, respectively, 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 11, "Borrowings."

On July 18, 2013, the Company issued 6.625% Senior Notes due July 15, 2021 (the "2021 Notes") of \$225,000 thousand, which represents the principal amount, excluding \$1,125 thousand of original issue discount and \$5,039 thousand of debt issuance costs. In December 2018 and January 2019, the Company repurchased a principal amount equal to \$500 thousand and \$250 thousand, respectively, 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 11, "Borrowings."

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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 June 30, 2020 and 2019, the Company did not have any assets or liabilities measured at fair value on a non-recurring basis.

11. Borrowings

Borrowings as of June 30, 2020 and December 31, 2019 are as follows (in thousands):

	June 30, 2020	December 31, 2019
5.0% Exchangeable Senior Notes due March 2021	\$ 83,740	\$ 83,740
6.625% Senior Notes due July 2021	224,250	224,250
Less: unamortized discount and debt issuance costs	(2,042)	(3,247)
Total borrowings, net	305,948	304,743
Less: current portion of long-term borrowings, net	(82,706)	—
Long-term borrowings, net	<u>\$223,242</u>	<u>\$ 304,743</u>

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.

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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 the three and six months ended June 30, 2020 were \$1,425 thousand and \$2,841 thousand, respectively. Interest expense related to the Exchangeable Notes for the three and six months ended June 30, 2019 were \$1,394 thousand and \$2,802 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 for the year ended December 31, 2018. In February 2019, the Company repurchased a principal amount equal to \$920 thousand of the Exchangeable Notes in the open market, resulting in a loss of \$63 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, 2019.

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.

On or after July 15, 2019, the Company can optionally redeem all or a part of the 2021 Notes at a redemption price equal to 100% of the principal amount of the notes 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 \$5,039 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 expense related to the 2021 Notes for the three and six months ended June 30, 2020 were \$3,944 thousand and \$7,887 thousand, respectively. Interest expenses related to the 2021 Notes for the three and six months ended June 30, 2019 were \$3,929 thousand and \$7,859 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. In January 2019, the Company repurchased a principal amount equal to \$250 thousand of the 2021 Notes in the open market, resulting in a net gain of \$21 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, 2019.

12. 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 June 30, 2020, 98% of all employees of the Company were eligible for severance benefits.

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

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>June 30, 2020</u>		<u>June 30, 2019</u>	
Beginning balance	\$ 50,610	\$ 53,344	\$ 54,553	\$ 55,691
Provisions	1,755	3,774	1,329	2,643
Severance payments	(1,502)	(3,454)	(1,799)	(3,295)
Translation adjustments	922	(1,879)	(881)	(1,837)
	<u>51,785</u>	<u>51,785</u>	<u>53,202</u>	<u>53,202</u>
Less: Cumulative contributions to severance insurance deposit accounts	(1,570)	(1,570)	(1,099)	(1,099)
The National Pension Fund	(73)	(73)	(84)	(84)
Group severance insurance plan	(215)	(215)	(236)	(236)
Accrued severance benefits, net	<u>\$ 49,927</u>	<u>\$ 49,927</u>	<u>\$ 51,783</u>	<u>\$ 51,783</u>

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

In July 2018, the Company began contributing to certain severance insurance deposit accounts a certain percentage of severance benefits that are accrued for eligible employees for their services from January 1, 2018. 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. The Company deducts the contributions made to these severance insurance deposit accounts from its accrued severance benefits.

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

	<u>Severance benefit</u>
Remainder of 2020	\$ 379
2021	401
2022	741
2023	596
2024	1,178
2025	2,104
2026 – 2030	19,482

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.

Korea's mandatory retirement age is 60 under the Employment Promotion for the Aged Act.

13. 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 the Company's 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 June 30, 2020 and December 31, 2019, the outstanding intercompany loan balances including accrued interest between the Korean subsidiary and the Dutch subsidiary were \$690,708 thousand and \$686,485 thousand, respectively. The Korean won to US dollar exchange rates were 1,200.7:1 and 1,157.8:1 using the first base rate as of June 30, 2020 and December 31, 2019, respectively, as quoted by the KEB Hana Bank.

14. 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.

Income from continuing operations before income tax expense for the three months ended June 30, 2020 was \$12,452 thousand and loss from continuing operations before income tax expense for the three months ended June 30, 2019 was \$7,704 thousand. For the three months ended June 30, 2020 and 2019, the Company recorded an income tax expense on continuing operations of \$678 thousand and \$786 thousand, respectively, primarily attributable to interest on intercompany loan balances. Income tax expense was recorded for the Company's Korean subsidiary based on the estimated taxable income for the respective periods, combined with its ability to utilize net operating loss carryforwards up to 60% in 2019 and 2020.

Loss from continuing operations before income tax expense for the six months ended June 30, 2020 and 2019 were \$17,323 thousand and \$28,463 thousand, respectively. For the six months ended June 30, 2020 and 2019, the Company recorded income tax expense on continuing of \$1,981 thousand and \$1,582 thousand, respectively, primarily attributable to interest on intercompany loan balances. Income tax expense was recorded for the Company's Korean subsidiary based on the estimated taxable income for the respective periods, combined with its ability to utilize net operating loss carryforwards up to 60% in 2019 and 2020.

In July 2020, the U.S. Treasury Department issued final tax regulations related to the foreign-derived intangible income and global intangible low-taxed income (GILTI) provisions, which permits a taxpayer to elect to exclude income subject to a high effective rate of foreign tax from its GILTI inclusion. The Company is currently assessing the potential impact of the final regulations to the Company's consolidated financial statements.

15. Geographic and Other Information

Historically, the Company operated in two reportable 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.

On March 30, 2020, the Company entered into the BTA to sell its Foundry business and Fab 4. The planned divestiture of its Foundry business and Fab 4 allows the Company to strategically shift its operational focus to its standard products business. As a result, the results of the Foundry Services Group were classified as discontinued operations in the Company's consolidated statements of operations and thus excluded from both continuing operations and segment results for all periods presented. Please see "Item 1. Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Note 2. Discontinued Operations and Assets Held for Sale" for additional information on the results of discontinued operations. Accordingly, the Company now has one reportable segment. The Company's chief operating decision maker is its Chief Executive Officer, who allocates resources and assesses performance of the business and other activities based on gross profit.

The following sets forth information relating to the single continuing operating segment (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Revenues				
Standard products business				
Display Solutions	\$ 69,176	\$ 84,261	\$ 146,769	\$ 142,491
Power Solutions	39,779	47,745	72,922	89,779
Total standard products business	<u>108,955</u>	<u>132,006</u>	<u>219,691</u>	<u>232,270</u>
Transitional Fab 3 foundry services	9,873	8,879	19,610	15,882
Total revenues	<u>\$ 118,828</u>	<u>\$ 140,885</u>	<u>\$ 239,301</u>	<u>\$ 248,152</u>
Gross Profit				
Standard products business				
Transitional Fab 3 foundry services	—	—	—	—
Total gross profit	<u>\$ 32,138</u>	<u>\$ 31,622</u>	<u>\$ 61,268</u>	<u>\$ 50,645</u>

The following is a summary of net sales – standard products business (which does not include the Transitional Fab 3 Foundry Services) by geographic region, based on the location to which the products are billed (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Korea	\$ 21,957	\$ 36,559	\$ 52,774	\$ 71,205
Asia Pacific (other than Korea)	84,210	93,657	161,752	157,404
U.S.A.	1,461	656	2,170	1,118
Europe	856	881	1,827	2,014
Others	471	253	1,168	529
Total	<u>\$ 108,955</u>	<u>\$ 132,006</u>	<u>\$ 219,691</u>	<u>\$ 232,270</u>

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For the three months ended June 30, 2020 and 2019, of the Company's net sales – standard products business in Asia Pacific (other than Korea), net sales – standard products business in Greater China (China, Hong Kong and Macau) represented 82.8% and 96.9%, respectively.

For the six months ended June 30, 2020 and 2019, of the Company's net sales – standard products business in Asia Pacific (other than Korea), net sales – standard products business in Greater China (China, Hong Kong and Macau) represented 88.8% and 95.8%, respectively.

Net sales from the Company's top ten largest customers in the standard products business (which does not include the Transitional Fab 3 Foundry Services) accounted for 88% and 91% for the three months ended June 30, 2020 and 2019, respectively, and 89% for each of the six months ended June 30, 2020 and 2019.

For the three months ended June 30, 2020, the Company had one customer that represented 56.5% of its net sales – standard products business, and for the six months ended June 30, 2020, the Company had two customers that represented 54.7% and 10.7% of its net sales – standard products business.

For the three months ended June 30, 2019, the Company had one customer that represented 54.8% of its net sales – standard products business, and for the six months ended June 30, 2019, the Company had one customer that represented 50.6% of its net sales – standard products business.

As of June 30, 2020 and December 31, 2019, one customer accounted for 48.6% and 43.1% of accounts receivable, net, respectively.

96% of the Company's property, plant and equipment from continuing operations are located in Korea as of June 30, 2020.

16. Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) consists of the following as of June 30, 2020 and December 31, 2019, respectively (in thousands):

	June 30, 2020	December 31, 2019
Foreign currency translation adjustments	\$ 11,503	\$ (4,205)
Derivative adjustments	(1,004)	1,545
Total	<u>\$ 10,499</u>	<u>\$ (2,660)</u>

Changes in accumulated other comprehensive income (loss) for the three months ended June 30, 2020 and 2019 are as follows (in thousands):

	Foreign currency translation adjustments	Derivative adjustments	Total
Three Months Ended June 30, 2020			
Beginning balance	\$ 18,046	\$ (3,401)	\$ 14,645
Other comprehensive income (loss) before reclassifications	(6,543)	2,204	(4,339)
Amounts reclassified from accumulated other comprehensive loss	—	193	193
Net current-period other comprehensive income (loss)	(6,543)	2,397	(4,146)
Ending balance	<u>\$ 11,503</u>	<u>\$ (1,004)</u>	<u>\$ 10,499</u>
Three Months Ended June 30, 2019			
Beginning balance	\$ (12,757)	\$ (361)	\$(13,118)
Other comprehensive income (loss) before reclassifications	7,680	(2,499)	5,181
Amounts reclassified from accumulated other comprehensive loss	—	1,864	1,864
Net current-period other comprehensive income (loss)	<u>7,680</u>	<u>(635)</u>	<u>7,045</u>

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	Foreign currency translation adjustments	Derivative adjustments	Total
Three Months Ended June 30, 2020			
Ending balance	\$ (5,077)	\$ (996)	\$ (6,073)

Changes in accumulated other comprehensive income (loss) for the six months ended June 30, 2020 and 2019 are as follows (in thousands):

	Foreign currency translation adjustments	Derivative adjustments	Total
Six Months Ended June 30, 2020			
Beginning balance	\$ (4,205)	\$ 1,545	\$ (2,660)
Other comprehensive income (loss) before reclassifications	15,708	(2,800)	12,908
Amounts reclassified from accumulated other comprehensive loss	—	251	251
Net current-period other comprehensive income (loss)	15,708	(2,549)	13,159
Ending balance	\$ 11,503	\$ (1,004)	\$ 10,499

	Foreign currency translation adjustments	Derivative adjustments	Total
Six Months Ended June 30, 2019			
Beginning balance	\$ (20,061)	\$ (49)	\$ (20,110)
Other comprehensive income (loss) before reclassifications	14,984	(2,900)	12,084
Amounts reclassified from accumulated other comprehensive loss	—	1,953	1,953
Net current-period other comprehensive income (loss)	14,984	(947)	14,037
Ending balance	\$ (5,077)	\$ (996)	\$ (6,073)

There was no income tax impact related to changes in accumulated other comprehensive income (loss) for the three and six months ended June 30, 2020 and 2019 due to net operating loss carry-forwards available to offset taxable income and full allowance for deferred tax assets.

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17. Earnings (Loss) Per Share

The following table illustrates the computation of basic and diluted earnings (loss) per common share for the three and six months ended June 30, 2020 and 2019:

	Three Months Ended		Six Months Ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
(In thousands of US dollars, except share data)				
Basic earnings (loss) per share				
Income (loss) from continuing operations	\$ 11,774	\$ (8,490)	\$ (19,304)	\$ (30,045)
Income (loss) from discontinued operations, net of tax	17,397	(1,030)	24,726	(13,600)
Net income (loss)	<u>\$ 29,171</u>	<u>\$ (9,520)</u>	<u>\$ 5,422</u>	<u>\$ (43,645)</u>
Basic weighted average common stock outstanding	35,092,312	34,245,127	34,992,734	34,220,141
Basic earnings (loss) per common share				
Continuing operations	\$ 0.34	\$ (0.25)	\$ (0.55)	\$ (0.88)
Discontinued operations	0.50	(0.03)	0.71	(0.40)
Total	<u>\$ 0.84</u>	<u>\$ (0.28)</u>	<u>\$ 0.16</u>	<u>\$ (1.28)</u>
Diluted earnings (loss) per share				
Income (loss) from continuing operations	\$ 11,774	\$ (8,490)	\$ (19,304)	\$ (30,045)
Add back: Interest expense on Exchangeable Notes	1,425	—	—	—
Income (loss) from continuing operations allocated to common stockholders	\$ 13,199	\$ (8,490)	\$ (19,304)	\$ (30,045)
Income (loss) from discontinued operations, net of tax	17,397	(1,030)	24,726	(13,600)
Net income (loss) allocated to common stockholders	<u>\$ 30,596</u>	<u>\$ (9,520)</u>	<u>\$ 5,422</u>	<u>\$ (43,645)</u>
Basic weighted average common stock outstanding	35,092,312	34,245,127	34,992,734	34,220,141
Net effect of dilutive equity awards	1,237,770	—	—	—
Net effect of assumed conversion of 5.0% Exchangeable Notes to common stock	10,144,155	—	—	—
Diluted weighted average common stock outstanding	46,474,237	34,245,127	34,992,734	34,220,141
Continuing operations	\$ 0.28	\$ (0.25)	\$ (0.55)	\$ (0.88)
Discontinued operations	0.37	(0.03)	0.71	(0.40)
Total	<u>\$ 0.65</u>	<u>\$ (0.28)</u>	<u>\$ 0.16</u>	<u>\$ (1.28)</u>

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

	Three Months Ended		Six Months Ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Options	699,167	2,611,832	2,075,494	2,611,832
Restricted Stock Units	—	501,490	1,238,639	501,490

The numbers of shares of potential common stock from the assumed conversion of Exchangeable Notes that were excluded from the computation of diluted loss per share as the anti-dilutive effects were 10,144,155 for each of the six months ended June 30, 2020 and three months ended June 30, 2019 and 10,163,242 for the six months ended June 30, 2019.

18. Commitments and Contingencies

Long-term Purchase Agreements and Advances to Suppliers

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 adequacy 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 June 30, 2020 and December 31, 2019, respectively.

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The Company, from time to time, may make advances in form of prepayments or deposits to suppliers to procure materials to meet its planned production. The Company recorded advances of \$5,419 thousand and \$6,593 thousand as other current assets as of June 30, 2020 and December 31, 2019, respectively.

COVID-19 Pandemic

In December 2019, a strain of coronavirus causing a disease known as COVID-19 surfaced in Wuhan, China, resulting in significant disruptions among Chinese manufacturing and other facilities and travel throughout China. In March 2020, the World Health Organization declared the COVID-19 outbreak a pandemic, which continues to spread rapidly in the U.S. and other countries throughout the world. Governmental authorities throughout the world have implemented numerous containment measures, including travel bans and restrictions, quarantines, shelter-in-place orders, and business restrictions and shutdowns, resulting in rapidly changing market and economic conditions.

While the Company experienced some minor disruption in its Power Solutions business from assembly and test subcontractors located in China in the first quarter of 2020 as a result of COVID-19, to date its external Display Solutions business contractors and sub-contractors have not been materially impacted by the outbreak. Nevertheless, while the future impact on the Company's business from the COVID-19 pandemic is currently difficult to assess, the significant global macro-economic disruption will adversely affect customer demand for some of its products in the near term. The Company is, however, unable to accurately predict the full impact COVID-19 will have on its future results of operations due to numerous uncertainties, including the severity of the disease, the duration of the outbreak, a potential future recurrence of the outbreak, further containment actions that may be taken by governmental authorities, the impact to the businesses of its customers and suppliers, and other factors.

The Company continues to closely monitor and evaluate the nature and scope of the impact on COVID-19 to its business, consolidated results of operations, and financial condition, and may take further actions altering its business operations and managing its costs and liquidity that the Company deems necessary or appropriate to respond to this fast moving and uncertain global health crisis and the resulting global economic consequences.

19. Subsequent Events

Derivative contracts

In July 2020, the Company and NFIK entered into derivative contracts of zero cost collars for the period from January 2021 to June 2021. The total notional amounts are \$30,000 thousand.

A power outage

On July 20, 2020, the Company's Fab 3 facility in Gumi, South Korea experienced a temporary power outage for approximately 9 hours and 15 minutes. The accident caused certain damage to the Company's work in process wafers with an estimated total cost of up to approximately \$2.3 million. Management is currently evaluating potential insurance and other claims that the Company may have for the above loss and damages.

FORWARD LOOKING STATEMENTS

The following Management’s Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements 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, 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 this section, in “Part II: Item 1A. Risk Factors” herein and in “Part I: Item 1A. Risk Factors” in our Annual Report on Form 10-K filed on February 21, 2020 (“2019 Form 10-K”) (including that the impact of the COVID-19 pandemic may also exacerbate the risks discussed therein).

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.

Statements made in this Quarterly Report on Form 10-Q (this “Report”), unless the context otherwise requires, that include the use of the terms “we,” “us,” “our” and “MagnaChip” refer to MagnaChip Semiconductor Corporation and its consolidated subsidiaries. The term “Korea” refers to the Republic of Korea or South Korea.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with the unaudited consolidated financial statements and the related notes included elsewhere in this Report. We have reclassified certain prior year amounts to conform to the current year’s presentation for discontinued operations to reflect the divestiture of our Foundry Services Group business and Fab 4. Unless otherwise stated, information in this section relates to our continuing operations. The consolidated statements of cash flows have not been adjusted to separately disclose cash flows related to discontinued operations.

Overview

We are a designer and manufacturer of analog and mixed-signal semiconductor platform solutions for communications, IoT applications, consumer, industrial and automotive applications. We provide technology platforms for analog, mixed-signal, power, high voltage, non-volatile memory, and radio frequency applications. We have a proven record with more than 40 years of operating history, a portfolio of approximately 2,950 registered patents and pending applications and extensive engineering and manufacturing process expertise.

On March 30, 2020, we entered into the BTA for the sale of our Foundry Services Group business and Fab 4. The planned divestiture of the Foundry Services Group business and Fab 4 will allow us to strategically shift our operational focus to our standard products business. As a result, the results of the Foundry Services Group were classified as discontinued operations in our consolidated statements of operations and excluded from both continuing operations and segment results for all periods presented. Accordingly, commencing in the first quarter of 2020, we have one reportable segment: our standard products business, together with transitional foundry services associated with our fabrication facility located in Gumi, Korea, known as Fab 3, that we expect to perform for the Buyer for up to three years (the “Transitional Fab 3 Foundry Services”). The Transitional Fab 3 Foundry Services revenue is accounted for at cost prior to the closing of the sale of the Foundry Services Group business and Fab 4.

Our standard products business includes our Display Solutions and Power Solutions business lines.

Our Display Solutions products provide display solutions to major panel display suppliers of large and mobile rigid and flexible displays for home appliances, mobile communications, monitors, notebooks and automotive applications. Our Display Solutions products include source, gate drivers, timing controllers, and one-chip integrated solutions for LCD (Liquid Crystal Display) and OLED panel displays used in televisions, public displays, monitors, notebooks, mobile communications and automotive applications. Our Display Solutions products support the industry’s most advanced display technologies, such as OLEDs, and low temperature polysilicon (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 consumer, communications, computing, industrial and automotive 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, linear regulators, interface ICs and power management ICs (PMICs) for a range of devices, including televisions, smartphones, desktop PCs, notebooks, tablets, servers, telecommunication power, home appliances, industrial applications such as unit power suppliers, LED lighting, personal mobility, motor drives, battery management systems (BMS) and automotive electronics.

Our wide variety of analog and mixed-signal semiconductor products combined with our mature technology platform allow us to address multiple high-growth end markets and 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 also invest in relevant research and development activities and purchase necessary materials on a timely basis to meet our customers’ demand while maintaining our target margins and cash flow.

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

Demand for our products and services is driven by overall demand for 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.

Net sales for our standard products business 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 standard products business requires 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, such as organic light emitting diodes (OLED). We believe this balanced 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 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 12-inch foundry starting in 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 12-inch 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 8-inch manufacturing facilities and external 12-inch foundries, we apply our unique OLED process patents as well as other intellectual property, proprietary process design kits and custom design-flow methodologies.

Our success going forward will depend upon our ability to adapt to future challenges such as the emergence of new competitors for our products and services or the consolidation of current competitors. Additionally, we must innovate to remain ahead of, or at least rapidly adapt to, technological breakthroughs that may lead to a significant change in the technology necessary to deliver our products and services. We believe that our established relationships and close collaboration with leading customers enhance our awareness of new product opportunities, market and technology trends and improve our ability to adapt and grow successfully.

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Recent Developments

Power Outage

On July 20, 2020, our Fab 3 facility in Gumi, South Korea experienced a temporary power outage for approximately 9 hours and 15 minutes. The accident caused certain damage to our work in process wafers with an estimated total cost of up to approximately \$2.3 million. Management is currently evaluating potential insurance and other claims that we may have for the above loss and damages

Business Transfer Agreement

On March 30, 2020, we entered into the BTA for the sale of our Foundry Services Group business and Fab 4 to the Buyer. Under the terms and subject to the conditions set forth in the BTA, the Buyer agreed to acquire certain assets and assume certain liabilities related to the Foundry Services Group business and Fab 4 for a purchase price equal to the KRW equivalent of \$344.7 million in cash, subject to a working capital adjustment as described in the BTA. Subject to the terms of the BTA, all employees of the Foundry Services Group business and Fab 4 will be transferred to the Buyer effective as of the closing date, unless any employee formally objects to the transfer. The Buyer will assume all severance liabilities relating to the transferred employees. For a summary of the key terms and conditions of the BTA, please see our Current Report on Form 8-K filed on March 31, 2020 and the BTA filed as Exhibit 10.1 thereto.

COVID-19 Pandemic

In December 2019, a strain of coronavirus causing a disease known as COVID-19 surfaced in Wuhan, China, resulting in significant disruptions among Chinese manufacturing and other facilities and travel throughout China. In March 2020, the World Health Organization declared the COVID-19 outbreak a pandemic, which continues to spread rapidly in the U.S. and other countries throughout the world. Governmental authorities throughout the world have implemented numerous containment measures, including travel bans and restrictions, quarantines, shelter-in-place orders, and business restrictions and shutdowns, resulting in rapidly changing market and economic conditions.

While we experienced some minor disruption in our Power Solutions business from assembly and test subcontractors located in China in the first quarter of 2020 as a result of COVID-19, to date our external Display Solutions business contractors and sub-contractors have not been materially impacted by the outbreak. Nevertheless, while the future impact on our business from the COVID-19 pandemic is currently difficult to assess, the significant global macro-economic disruption will adversely affect customer demand for some of our products in the near term. We are, however, unable to accurately predict the full impact COVID-19 will have on our future results of operations due to numerous uncertainties, including the severity of the disease, the duration of the outbreak, a potential future recurrence of the outbreak, further containment actions that may be taken by governmental authorities, the impact to the businesses of our customers and suppliers, and other factors.

We continue to closely monitor and evaluate the nature and scope of the impact on COVID-19 to our business, consolidated results of operations, and financial condition, and may take further actions altering our business operations and managing our costs and liquidity that we deem necessary or appropriate to respond to this fast moving and uncertain global health crisis and the resulting global economic consequences.

Repurchase of Long-Term Borrowings

In January and February 2019, we repurchased a principal amount of \$0.3 million and \$0.9 million of the 2021 Notes and the Exchangeable Notes, respectively. As a result, we recorded a \$0.04 million net loss as early extinguishment loss on our consolidated statements of operations for the six months ended June 30, 2019.

Explanation and Reconciliation of Non-US GAAP Measures

Adjusted EBITDA, Adjusted Operating Income and Adjusted Net Income (Loss)

We use the terms Adjusted EBITDA, Adjusted Operating Income and Adjusted Net Income (Loss) (including on a per share basis) in our 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) equity-based compensation expense, (ii) foreign currency loss (gain), net, (iii) derivative valuation loss (gain), net, (iv) loss on early extinguishment of long-term borrowings, net and (v) others. EBITDA for the periods indicated is defined as net income (loss) before interest expense, net, income tax expense, 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 (loss) to Adjusted EBITDA from continuing operations is as follows:

	Three Months Ended June 30, 2020	Six Months Ended June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2019
	(In millions)			
Income (loss) from continuing operations	\$ 11.8	\$ (19.3)	\$ (8.5)	\$ (30.0)
Interest expense, net	4.7	9.7	4.9	9.9
Income tax expenses	0.7	2.0	0.8	1.6
Depreciation and amortization	2.5	5.1	2.6	5.1
EBITDA	\$ 19.7	\$ (2.5)	\$ (0.3)	\$ (13.4)
Adjustments:				
Equity-based compensation expense(a)	1.5	2.3	0.7	1.2
Foreign currency loss (gain), net(b)	(8.5)	22.5	11.6	22.2
Derivative valuation loss (gain), net(c)	(0.1)	(0.2)	0.1	0.1
Loss on early extinguishment of long-term borrowings, net(d)	—	—	—	0.0
Others(e)	—	0.6	—	0.6
Adjusted EBITDA	<u>\$ 12.7</u>	<u>\$ 22.6</u>	<u>\$ 12.0</u>	<u>\$ 10.7</u>

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- (a) 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.
- (b) This adjustment mainly eliminates the impact of non-cash foreign currency translation associated with intercompany debt obligations with respect to the continuing operations 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.
- (c) This adjustment eliminates the impact of gain or loss recognized in income on derivatives, which represents 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.
- (d) This adjustment eliminates \$0.04 million in expenses related to the repurchase of a portion of the 2021 Notes and the Exchangeable Notes in the first quarter of 2019.
- (e) For the six months ended June 30, 2020, this adjustment eliminates non-recurring professional service fees and expenses incurred in connection with certain treasury and finance initiatives. For the six months ended June 30, 2019, this adjustment eliminates a \$0.5 million legal settlement charge related to dispute with a prior customer and a legal expense related to the indemnification of a former employee, which is borne by us under a negotiated separation agreement. We do not believe that these charges are indicative of our core operating performance and have 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.

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We present Adjusted Operating Income as supplemental measures of our performance. We prepare Adjusted Operating Income by adjusting operating income to eliminate the impact of equity-based compensation 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 Operating Income is useful to investors to provide a supplemental way to understand our underlying operating performance and allows investors to monitor and understand changes in our ability to generate income from ongoing business operations.

Adjusted Operating Income is not a measure defined in accordance with US GAAP and should not be construed as an alternative to operating income, 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 Operating Income differently than we do, limiting its usefulness as a comparative measure. In addition, in evaluating Adjusted Operating Income, you should be aware that in the future we may incur expenses similar to the adjustments in this presentation. We define Adjusted Operating Income for the periods indicated as operating income adjusted to exclude (i) Equity-based compensation expense and (ii) Others.

The following table summarizes the adjustments to operating income that we make in order to calculate Adjusted Operating Income from continuing operations for the periods indicated:

	Three Months Ended June 30, 2020	Six Months Ended June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2019
	(In millions)			
Operating income	\$ 8.6	\$ 14.6	\$ 8.8	\$ 3.7
Adjustments:				
Equity-based compensation expense(a)	1.5	2.3	0.7	1.2
Others(b)	—	0.6	—	0.6
Adjusted Operating Income	<u>\$ 10.1</u>	<u>\$ 17.4</u>	<u>\$ 9.4</u>	<u>\$ 5.5</u>

- (a) 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.
- (b) For the six months ended June 30, 2020, this adjustment eliminates non-recurring professional service fees and expenses incurred in connection with certain treasury and finance initiatives. For the six months ended June 30, 2019, this adjustment eliminates a \$0.5 million legal settlement charge related to dispute with a prior customer and a legal expense related to the indemnification of a former employee, which is borne by us under a negotiated separation agreement. We do not believe that these charges are indicative of our core operating performance and have been excluded for comparative purposes.

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We present Adjusted Net Income (Loss) (including on a per share basis) as a further supplemental measure of our performance. We prepare Adjusted Net Income (Loss) (including on a per share basis) 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) (including on a per share basis); 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) (including on a per share basis) for a number of reasons, including:

- we use Adjusted Net Income (Loss) (including on a per share basis) 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) (including on a per share basis) 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) (including on a per share basis) 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) (including on a per share basis) differently than we do, limiting its usefulness as a comparative measure. In addition, in evaluating Adjusted Net Income (Loss) (including on a per share basis), 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) (including on a per share basis); for the periods indicated as net income (loss), adjusted to exclude (i) equity-based compensation expense, (ii) foreign currency loss (gain), net, (iii) derivative valuation loss (gain), net, (iv) loss on early extinguishment of long-term borrowings, net and (v) others.

The following table summarizes the adjustments to income (loss) from continuing operations that we make in order to calculate Adjusted Net Income (Loss) (including on a per share basis) from continuing operations for the periods indicated:

	Three Months Ended June 30, 2020	Six Months Ended June 30, 2020	Three Months Ended June 30, 2019	Six Months Ended June 30, 2019
	(In millions)			
Income (loss) from continuing operations	\$ 11.8	\$ (19.3)	\$ (8.5)	\$ (30.0)
Adjustments:				
Equity-based compensation expense(a)	1.5	2.3	0.7	1.2
Foreign currency loss (gain), net(b)	(8.5)	22.5	11.6	22.2
Derivative valuation loss (gain), net(c)	(0.1)	(0.2)	0.1	0.1
Loss on early extinguishment of long-term borrowings, net(d)	—	—	—	0.0
Others(e)	—	0.6	—	0.6
Adjusted Net Income (Loss)	\$ 4.8	\$ 5.8	\$ 3.8	\$ (5.9)
Reported earnings (loss) per share – basic	\$ 0.34	\$ (0.55)	\$ (0.25)	\$ (0.88)
Reported earnings (loss) per share – diluted	\$ 0.28	\$ (0.55)	\$ (0.25)	\$ (0.88)
Weighted average number of shares – basic	35,092,312	34,992,734	34,245,127	34,220,141
Weighted average number of shares – diluted	46,474,237	34,992,734	34,245,127	34,220,141
Adjusted earnings (loss) per share – basic	\$ 0.14	\$ 0.17	\$ 0.11	\$ (0.17)
Adjusted earnings (loss) per share – diluted	\$ 0.13	\$ 0.16	\$ 0.11	\$ (0.17)
Weighted average number of shares – basic	35,092,312	34,992,734	34,245,127	34,220,141
Weighted average number of shares – diluted	36,330,083	36,248,039	34,965,562	34,220,141

- (a) 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.

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- (b) This adjustment mainly eliminates the impact of non-cash foreign currency translation associated with intercompany debt obligations with respect to the continuing operations 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.
- (c) This adjustment eliminates the impact of gain or loss recognized in income on derivatives, which represents 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.
- (d) This adjustment eliminates \$0.04 million in expenses related to the repurchase of a portion of the 2021 Notes and the Exchangeable Notes in the first quarter of 2019.
- (e) For the six months ended June 30, 2020, this adjustment eliminates non-recurring professional service fees and expenses incurred in connection with certain treasury and finance initiatives. For the six months ended June 30, 2019, this adjustment eliminates a \$0.5 million legal settlement charge related to dispute with a prior customer and a legal expense related to the indemnification of a former employee, which is borne by us under a negotiated separation agreement. We do not believe that these charges are indicative of our core operating performance and have been excluded for comparative purposes.

There was no tax impact from the adjustments to net income (loss) to calculate our Adjusted Net Income (Loss) from continuing operations for the six months ended June 30, 2020 and 2019 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) from continuing operations used to calculate Adjusted Net Income (Loss) from continuing operations 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.

Factors Affecting Our Results of Operations

Net Sales. We derive substantially all of our sales (net of sales returns and allowances) from our standard products business. We outsource manufacturing of advanced OLED products to external 12-inch foundries. 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.

We recognize revenue when risk and reward of ownership pass to the customer either upon shipment, upon product delivery at the customer's location or upon customer acceptance, depending on the terms of the arrangement. For the six months ended June 30, 2020 and 2019, we sold products to 158 and 154 customers, respectively, and our net sales to our ten largest customers represented 89% of our net sales — standard products business, in each period.

We will provide the Transitional Fab 3 Foundry Services for a period up to three years after the sale of the Foundry Services Group business and Fab 4. For the periods prior to the sale of the Foundry Services Group business and Fab 4 (which is accounted for as a discontinued operation beginning in the first quarter of 2020), revenue derived from the Transitional Fab 3 Foundry Services is recorded at cost in both our continuing and discontinued operations.

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 facility 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 material costs consist 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 June 30, 2020, 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 display business are material and design-related costs for OLED display driver IC product development involving 40-nanometer or finer processes. The majority of research and development expenses of our power business are certain equipment, material and design-related costs for power discrete products and material and design-related costs for power IC products. Power IC uses standard BCD process technologies which can be sourced from multiple foundries, including Fab 4.

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 June 30, 2020, the outstanding intercompany loan balance including accrued interest between our Korean subsidiary and our Dutch subsidiary was \$690.7 million. 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 a counterparty in a number of circumstances, including if our long-term debt rating falls below B-/B3 or if our total cash and cash equivalents is less than \$30.0 million at the end of a fiscal quarter 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 foreign currency gain (loss), net in our statements of operations. 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.

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Discontinued Operations. On March 30, 2020, we entered into the BTA for the sale of our Foundry Services Group business and our Fab 4 to the Buyer. As a result, the results of the Foundry Services Group were classified as discontinued operations in our consolidated statements of operations and excluded from both continuing operations and segment results for all periods presented.

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.

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Results of Operations – Comparison of Three Months Ended June 30, 2020 and 2019

The following table sets forth consolidated results of operations for the three months ended June 30, 2020 and 2019:

	Three Months Ended June 30, 2020		Three Months Ended June 30, 2019		Change Amount
	Amount	% of Total revenues	Amount	% of Total revenues	
	(In millions)				
Revenues					
Net sales – standard products business	\$ 109.0	91.7%	\$ 132.0	93.7%	\$ (23.1)
Net sales – transitional Fab 3 foundry services	9.9	8.3	8.9	6.3	1.0
Total revenues	118.8	100.0	140.9	100.0	(22.1)
Cost of sales					
Cost of sales – standard products business	76.8	64.6	100.4	71.3	(23.6)
Cost of sales – transitional Fab 3 foundry services	9.9	8.3	8.9	6.3	1.0
Total cost of sales	86.7	73.0	109.3	77.6	(22.6)
Gross profit	32.1	27.0	31.6	22.4	0.5
Selling, general and administrative expenses	12.4	10.4	11.1	7.9	1.3
Research and development expenses	11.1	9.3	11.8	8.4	(0.7)
Operating income	8.6	7.3	8.8	6.2	(0.1)
Interest expense	(5.4)	(4.6)	(5.4)	(3.9)	0.0
Foreign currency gain (loss), net	8.5	7.1	(11.6)	(8.2)	20.0
Others, net	0.8	0.7	0.6	0.4	0.2
	3.8	3.2	(16.5)	(11.7)	20.3
Income (loss) from continuing operations before income tax expense	12.5	10.5	(7.7)	(5.5)	20.2
Income tax expense	0.7	0.6	0.8	0.6	(0.1)
Income (loss) from continuing operations	11.8	9.9	(8.5)	(6.0)	20.3
Income (loss) from discontinued operations, net of tax	17.4	14.6	(1.0)	(0.7)	18.4
Net income (loss)	<u>\$ 29.2</u>	24.5	<u>\$ (9.5)</u>	(6.8)	<u>\$ 38.7</u>

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The following sets forth information relating to our continuing operations:

	Three Months Ended June 30, 2020		Three Months Ended June 30, 2019		Change Amount
	Amount	% of Total Revenues	Amount	% of Total Revenues	
(In millions)					
Revenues					
Net sales – standard products business					
Display Solutions	\$ 69.2	58.2%	\$ 84.3	59.8%	\$ (15.1)
Power Solutions	39.8	33.5	47.7	33.9	(8.0)
Total standard products business	109.0	91.7	132.0	93.7	(23.1)
Net sales – transitional Fab 3 foundry services	9.9	8.3	8.9	6.3	1.0
Total revenues	<u>\$ 118.8</u>	<u>100.0%</u>	<u>\$ 140.9</u>	<u>100.0%</u>	<u>\$ (22.1)</u>

	Three Months Ended June 30, 2020		Three Months Ended June 30, 2019		Change Amount
	Amount	% of Net sales	Amount	% of Net sales	
(In millions)					
Gross Profit					
Gross profit – standard products business	\$ 32.1	29.5%	\$ 31.6	24.0%	\$ 0.5
Gross profit – transitional Fab 3 foundry services	—	—	—	—	—
Total gross profit	<u>\$ 32.1</u>	<u>27.0%</u>	<u>\$ 31.6</u>	<u>22.4%</u>	<u>\$ 0.5</u>

Revenues

Total revenues were \$118.8 million for the three months ended June 30, 2020, a \$22.1 million, or 15.7%, decrease compared to \$140.9 million for the three months ended June 30, 2019. This decrease was primarily due to a decrease in revenue related to our standard products business as described below.

The standard products business. Net sales from our standard products business were \$109.0 million for the three months ended June 30, 2020, a 23.1 million, or 17.5%, decreased compared to \$132.0 million for the three months ended June 30, 2019. This decrease was primarily attributable to a decrease in revenue related to our mobile OLED display driver ICs as a result of COVID-19, which negatively affected the global smartphone market during the second quarter of 2020, and a strategic reduction of our lower margin non-auto LCD DDIC business. The significant global macro-economic market disruption due to COVID-19 also affected customer demand for some of our Power Solution products, resulting in a decrease in revenue from our Power Solutions business line.

The transitional Fab 3 foundry services. Net sales from the transitional Fab 3 foundry services were \$9.9 million and \$8.9 million for the three months ended June 30, 2020 and 2019, respectively.

Gross Profit

Total gross profit was \$32.1 million for the three months ended June 30, 2020 compared to \$31.6 million for the three months ended June 30, 2019, a \$0.5 million, or 1.6%, increase. Gross profit as a percentage of net sales for the three months ended June 30, 2020 increased to 27.0% compared to 22.4% for the three months ended June 30, 2019. The increase in gross profit and gross profit as a percentage of net sales was due to an increase in gross profit and gross profit as a percentage of net sales from our standard products business as further described below.

The standard products business. Gross profit from our standard products business was \$32.1 million for the three months ended June 30, 2020, which represented a \$0.5 million, or 1.6%, increase from gross profit of \$31.6 million for the three months ended June 30, 2019. Gross profit as a percentage of net sales for the three months ended June 30, 2020 increased to 29.5% compared to 24.0% for the three months ended June 30, 2019. The increase in both gross profit and gross profit as a percentage of net sales was primarily attributable to an inventory reserve related to a legacy display product that was recorded in the second quarter of 2019.

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Net Sales – Standard Products Business by Geographic Region

We report net sales – standard products business by geographic region based on the location to which the products are billed. The following table sets forth our net sales - standard products business by geographic region and the percentage of total net sales - standard products business represented by each geographic region for the three months ended June 30, 2020 and 2019:

	Three Months Ended June 30, 2020		Three Months Ended June 30, 2019		Change Amount
	Amount	% of Net Sales – standard products business	Amount	% of Net Sales – standard products business	
	(In millions)				
Korea	\$ 22.0	20.2%	\$ 36.6	27.7%	\$ (14.6)
Asia Pacific (other than Korea)	84.2	77.3	93.7	70.9	(9.4)
United States	1.5	1.3	0.7	0.5	0.8
Europe	0.9	0.8	0.9	0.7	(0.0)
Others	0.5	0.4	0.3	0.2	0.2
	<u>\$109.0</u>	<u>100.0%</u>	<u>\$132.0</u>	<u>100.0%</u>	<u>\$ (23.1)</u>

Net sales – standard products business in Korea for the three months ended June 30, 2020 decreased from \$36.6 million to \$22.0 million compared to the three months ended June 30, 2019, which represented a decrease of \$14.6 million, or 39.9%, primarily due to lower demand for power products such as MOSFETs primarily for TV and smartphone applications, and a strategic reduction of our lower margin non-auto LCD DDIC business, which was offset in part by an increase in revenue related to our mobile OLED display driver ICs due to an increase in demand for production of new OLED smartphones by Chinese manufacturers due in part to the geographic diversification of our OLED product portfolio amid a COVID-19-related disruption.

Net sales – standard products business in Asia Pacific (other than Korea) for the three months ended June 30, 2020 decreased to \$84.2 million from \$93.7 million in the three months ended June 30, 2019, which represented a decrease of \$9.4 million, or 10.1%, primarily due to a decrease in revenue from our mobile OLED display driver ICs as a result of COVID-19, which negatively affected the global smartphone market during the second quarter of 2020.

Operating Expenses

Selling, General and Administrative Expenses. Selling, general and administrative expenses were \$12.4 million, or 10.4%, of total revenues, for the three months ended June 30, 2020, compared to \$11.1 million, or 7.9%, of total revenues, for the three months ended June 30, 2019. The increase of \$1.3 million, or 11.8%, was primarily attributable to an increase in employee compensation, including issuance of equity-based compensation.

Research and Development Expenses. Research and development expenses were \$11.1 million, or 9.3%, of total revenues, for the three months ended June 30, 2020, compared to \$11.8 million, or 8.4%, of total revenues, for the three months ended June 30, 2019. The decrease of \$0.7 million, or 5.6%, was primarily attributable to the timing of development activities for our 28-nanometer OLED display driver ICs and a decrease in outside service fees and various overhead expenses. This decrease was offset in part by an increase in employee compensation, including issuance of equity-based compensation.

Operating Income

As a result of the foregoing, operating income of \$8.6 million was recorded for the three months ended June 30, 2020, compared to operating income of \$8.8 million the three months ended June 30, 2019. As discussed above, the decrease in operating income of \$0.1 million resulted primarily from a \$1.3 million increase in selling, general and administrative expenses, which was offset in part by a \$0.5 million increase in gross profit and a \$0.7 million decrease in research and development expenses.

Other Income

Interest Expense. Interest expenses were \$5.4 million for each of the three months ended June 30, 2020 and June 30, 2019.

Foreign Currency Gain (Loss), Net. Net foreign currency gain for the three months ended June 30, 2020 was \$8.5 million compared to net foreign currency loss of \$11.6 million for the three months ended June 30, 2019. The net foreign currency gain for the three months ended June 30, 2020 was due to the appreciation in value of the Korean won relative to the U.S. dollar during the period. The net foreign currency loss for the three months ended June 30, 2019 was due to the depreciation in value of the Korean won relative to the U.S. dollar during the period.

A substantial portion of our net foreign currency gain or loss is non-cash translation gain or loss associated with intercompany long-term loans to our Korean subsidiary, which are denominated in US dollars, and are affected by changes in the exchange rate between the Korean won and the US dollar. As of June 30, 2020 and June 30, 2019, the outstanding intercompany loan balances including accrued interest between our Korean subsidiary and our Dutch subsidiary were \$691 million and \$673 million, respectively. Foreign currency translation gain or loss from intercompany balances were 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 rental income, interest income, and gains and losses from valuation of derivatives which were designated as hedging instruments. Others for the three months ended June 30, 2020 and June 30, 2019 was \$0.8 million and \$0.6 million, respectively.

Income Tax Expense

Income tax expense was \$0.7 million and \$0.8 million for the three months ended June 30, 2020 and 2019, respectively, and was primarily attributable to interest on intercompany loan balances. Income tax expense was recorded for our Korean subsidiary based on the estimated taxable income for the respective periods, combined with our ability to utilize net operating loss carryforwards up to 60%.

Income (Loss) from Continuing Operations

As a result of the foregoing, net income from continuing operations increased by \$20.3 million for the three months ended June 30, 2020 compared to the three months ended June 30, 2019. As discussed above, the increase in net income from continuing operations primarily resulted from a \$20.0 million improvement in net foreign currency loss.

Income (Loss) from Discontinued Operations, Net of Tax

On March 30, 2020, we entered into the BTA for the sale of our Foundry Services Group business and Fab 4. As a result, the results of the Foundry Services Group were classified as discontinued operations in our consolidated statements of operations and excluded from our continuing operations for all periods presented.

Income from discontinued operations, net of tax for the three months ended June 30, 2020 was \$17.4 million, compared to loss from discontinued operations, net of tax of \$1.0 million for the three months ended June 30, 2019. The \$18.4 million increase in net income from discontinued operations primarily resulted from an \$18.7 million increase in gross profit due in part to depreciation and amortization associated with the assets classified as those held for sale having been ceased in the second quarter of 2020, a \$0.9 million decrease in selling, general and administrative expenses, a \$0.5 million decrease in restructuring and other charges, a \$0.3 million decrease in research and development expenses, which were offset in part by an \$1.2 million decrease in foreign currency gain, net and a \$0.9 million increase in income tax expense.

Net Income (Loss)

As a result of the foregoing, net income of \$29.2 million was recorded for the three months ended June 30, 2020 compared to net loss of \$9.5 million for the three months ended June 30, 2019. As discussed above, the increase in net income of \$38.7 million primarily resulted from a \$20.3 million increase in net income from continuing operations and an \$18.4 million increase in net income from discontinued operations.

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Results of Operations – Comparison of Six Months Ended June 30, 2020 and 2019

The following table sets forth consolidated results of operations for the six months ended June 30, 2020 and 2019:

	Six Months Ended June 30, 2020		Six Months Ended June 30, 2019		Change Amount
	Amount	% of Total revenues	Amount (In millions)	% of Total revenues	
Revenues					
Net sales – standard products business	\$ 219.7	91.8%	\$ 232.3	93.6%	\$ (12.6)
Net sales – transitional Fab 3 foundry services	19.6	8.2	15.9	6.4	3.7
Total revenues	239.3	100.0	248.2	100.0	(8.9)
Cost of sales					
Cost of sales – standard products business	158.4	66.2	181.6	73.2	(23.2)
Cost of sales – transitional Fab 3 foundry services	19.6	8.2	15.9	6.4	3.7
Total cost of sales	178.0	74.4	197.5	79.6	(19.5)
Gross profit	61.3	25.6	50.6	20.4	10.6
Selling, general and administrative expenses	24.5	10.2	23.1	9.3	1.4
Research and development expenses	21.6	9.0	23.8	9.6	(2.2)
Other charges	0.6	0.2	—	—	0.6
Operating income	14.6	6.1	3.7	1.5	10.9
Interest expense	(11.0)	(4.6)	(11.1)	(4.5)	0.0
Foreign currency loss, net	(22.5)	(9.4)	(22.2)	(8.9)	(0.3)
Loss on early extinguishment of long-term borrowings, net	—	—	(0.0)	(0.0)	0.0
Others, net	1.6	0.7	1.1	0.5	0.5
	(31.9)	(13.3)	(32.2)	(13.0)	0.3
Loss from continuing operations before income tax expense	(17.3)	(7.2)	(28.5)	(11.5)	11.1
Income tax expense	2.0	0.8	1.6	0.6	0.4
Loss from continuing operations	(19.3)	(8.1)	(30.0)	(12.1)	10.7
Income (loss) from discontinued operations, net of tax	24.7	10.3	(13.6)	(5.5)	38.3
Net income (loss)	\$ 5.4	2.3	\$ (43.6)	(17.6)	\$ 49.1

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The following sets forth information relating to our continuing operations:

	Six Months Ended June 30, 2020		Six Months Ended June 30, 2019		Change Amount
	Amount	% of Total Revenues	Amount	% of Total Revenues	
(In millions)					
Revenues					
Net sales – standard products business					
Display Solutions	\$ 146.8	61.3%	\$ 142.5	57.4%	\$ 4.3
Power Solutions	72.9	30.5	89.8	36.2	(16.9)
Total standard products business	219.7	91.8	232.3	93.6	(12.6)
Net sales – transitional Fab 3 foundry services	19.6	8.2	15.9	6.4	3.7
Total revenues	<u>\$ 239.3</u>	<u>100.0%</u>	<u>\$ 248.2</u>	<u>100.0%</u>	<u>\$ (8.9)</u>
(In millions)					
Gross Profit					
Gross profit – standard products business	\$ 61.3	27.9%	\$ 50.6	21.8%	\$ 10.6
Gross profit – transitional Fab 3 foundry services	—	—	—	—	—
Total gross profit	<u>\$ 61.3</u>	<u>25.6%</u>	<u>\$ 50.6</u>	<u>20.4%</u>	<u>\$ 10.6</u>

Revenues

Total revenues were \$239.3 million for the six months ended June 30, 2020, an \$8.9 million, or 3.6%, decrease compared to \$248.2 million for the six months ended June 30, 2019. This decrease was primarily due to a decrease in revenue related to our standard products business as described below.

The standard products business. Net sales from our standard products business were \$219.7 million for the six months ended June 30, 2020, a 12.6 million, or 5.4%, decrease compared to \$232.3 million for the six months ended June 30, 2019. This decrease was primarily attributable to a decrease in revenue from our Power Solutions business line as a result of the significant global macro-economic disruption due to COVID-19 during the first half of 2020, and a strategic reduction of our lower margin non-auto LCD DDIC business. These decreases were offset in part by an increase in revenue related to our mobile OLED display driver ICs due to certain new product launches by our customers and geographically diversified product portfolios amid a COVID-19-related disruption.

The transitional Fab 3 foundry services. Net sales from the transitional Fab 3 foundry services were \$19.6 million and \$15.9 million for the six months ended June 30, 2020 and 2019, respectively.

Gross Profit

Total gross profit was \$61.3 million for the six months ended June 30, 2020 compared to \$50.6 million for the six months ended June 30, 2019, a \$10.6 million, or 21.0%, increase. Gross profit as a percentage of net sales for the six months ended June 30, 2020 increased to 25.6% compared to 20.4% for the six months ended June 30, 2019. The increase in gross profit and gross profit as a percentage of net sales was due to the increase in gross profit and gross profit as a percentage of net sales from our standard products business as further described below.

The standard products business. Gross profit from our standard products business was \$61.3 million for the six months ended June 30, 2020, which represented a \$10.6 million, or 21.0%, increase from gross profit of \$50.6 million for the six months ended June 30, 2019. Gross profit as a percentage of net sales for the six months ended June 30, 2020 increased to 27.9% compared to 21.8% for the six months ended June 30, 2019. The increase in both gross profit and gross profit as a percentage of net sales was primarily attributable to inventory reserves related to certain legacy display products that were recorded in the first half of 2019 and an improved product mix.

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Net Sales – Standard Products Business by Geographic Region

We report net sales – standard products business by geographic region based on the location to which the products are billed. The following table sets forth our net sales - standard products business by geographic region and the percentage of total net sales - standard products business represented by each geographic region for the six months ended June 30, 2020 and 2019:

	Six Months Ended June 30, 2020		Six Months Ended June 30, 2019		Change Amount
	Amount	% of Net Sales – standard products business	Amount (In millions)	% of Net Sales – standard products business	
Korea	\$ 52.8	24.0%	\$ 71.2	30.7%	\$ (18.4)
Asia Pacific (other than Korea)	161.8	73.6	157.4	67.8	4.3
United States	2.2	1.0	1.1	0.5	1.1
Europe	1.8	0.8	2.0	0.9	(0.2)
Others	1.2	0.5	0.5	0.2	0.6
	<u>\$219.7</u>	<u>100.0%</u>	<u>\$232.3</u>	<u>100.0%</u>	<u>\$ (12.6)</u>

Net sales – standard products business in Korea for the six months ended June 30, 2020 decreased from \$71.2 million to \$52.8 million compared to the six months ended June 30, 2019, which represented a decrease of \$18.4 million, or 25.9%, primarily due to lower demand for power products such as MOSFETs primarily for TV and smartphone applications, and a strategic reduction of our lower margin non-auto LCD DDIC business, which was offset in part by an increase in revenue related to our mobile OLED display driver ICs due to an increase in demand for production of new OLED smartphones by Chinese manufacturers due in part to the geographic diversification of our OLED product portfolio amid a COVID-19-related disruption.

Net sales – standard products business in Asia Pacific (other than Korea) for the six months ended June 30, 2020 increased to \$161.8 million from \$157.4 million in the six months ended June 30, 2019, which represented an increase of \$4.3 million, or 2.8%, primarily due to an increase in revenue related to our mobile OLED display driver ICs due to an increase in demand for production of new OLED smartphones by Chinese and Korean manufacturers due in part to the geographically diversified product portfolios amid a COVID-19-related disruption.

Operating Expenses

Selling, General and Administrative Expenses. Selling, general and administrative expenses were \$24.5 million, or 10.2%, of total revenues, for the six months ended June 30, 2020, compared to \$23.1 million, or 9.3%, of total revenues, for the six months ended June 30, 2019. The increase of \$1.4 million, or 6.0%, was primarily attributable to an increase in employee compensation, including issuance of equity-based compensation, which was offset in part by a \$0.5 million legal settlement charge related to dispute with a prior customer recorded in the first quarter of 2019.

Research and Development Expenses. Research and development expenses were \$21.6 million, or 9.0%, of total revenues, for the six months ended June 30, 2020, compared to \$23.8 million, or 9.6%, of total revenues, for the six months ended June 30, 2019. The decrease of \$2.2 million, or 9.2%, was primarily attributable to the timing of development activities for our 28-nanometer OLED display driver ICs and a decrease in outside service fees and various overhead expenses. This decrease was offset in part by an increase in employee compensation, including issuance of equity-based compensation.

Other Charges. Other charges were \$0.6 million for the six months ended June 30, 2020, which were consisted of professional service fees and expenses incurred in connection with certain treasury and finance initiatives.

Operating Income

As a result of the foregoing, operating income of \$14.6 million was recorded for the six months ended June 30, 2020 compared to operating income of \$3.7 million the six months ended June 30, 2019. As discussed above, the increase in operating income of \$10.9 million resulted primarily from a \$10.6 million increase in gross profit and a \$2.2 million decrease in research and development expenses, which were offset in part by a \$1.4 million increase in selling, general and administrative expenses.

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Other Income

Interest Expense. Interest expenses were \$11.0 million and \$11.1 million for the six months ended June 30, 2020 and June 30, 2019, respectively.

Foreign Currency Loss, Net. Net foreign currency loss for the six months ended June 30, 2020 was \$22.5 million compared to net foreign currency loss of \$22.2 million for the six months ended June 30, 2019. The net foreign currency loss for the six months ended June 30, 2020 and June 30, 2019 was due to the depreciation in value of the Korean won relative to the US dollar during each period.

A substantial portion of our net foreign currency gain or loss is non-cash translation gain or loss associated with intercompany long-term loans to our Korean subsidiary, which are denominated in US dollars, and are affected by changes in the exchange rate between the Korean won and the US dollar. As of June 30, 2020 and June 30, 2019, the outstanding intercompany loan balances including accrued interest between our Korean subsidiary and our Dutch subsidiary were \$691 million and \$673 million, respectively. Foreign currency translation gain or loss from intercompany balances were 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. For the six months ended June 30, 2019, we repurchased a principal amount of \$0.3 million and \$0.9 million of the 2021 Notes and the Exchangeable Notes, respectively. In connection with these repurchases, we recognized a \$0.04 million net loss.

Others, Net. Others were comprised of rental income, interest income, and gains and losses from valuation of derivatives which were designated as hedging instruments. Others for the six months ended June 30, 2020 and June 30, 2019 was \$1.6 million and \$1.1 million, respectively.

Income Tax Expense

Income tax expense was \$2.0 million and \$1.6 million for the six months ended June 30, 2020 and 2019, respectively, and was primarily attributable to interest on intercompany loan balances. Income tax expense was recorded for our Korean subsidiary based on the estimated taxable income for the respective periods, combined with our ability to utilize net operating loss carryforwards up to 60%.

Loss from Continuing Operations

As a result of the foregoing, net loss from continuing operations improved by \$10.7 million for the six months ended June 30, 2020 compared to the six months ended June 30, 2019. As discussed above, the improvement in net loss from continuing operations primarily resulted from a \$10.9 million increase in operating income.

Income (Loss) from Discontinued Operations, Net of Tax

On March 30, 2020, we entered into the BTA for the sale of our Foundry Services Group business and Fab 4. As a result, the results of the Foundry Services Group were classified as discontinued operations in our consolidated statements of operations and excluded from our continuing operations for all periods presented.

Net income from discontinued operations for the six months ended June 30, 2020 was \$24.7 million compared to net loss from discontinued operations of \$13.6 million for the six months ended June 30, 2019. The \$38.3 million increase in net income from discontinued operations primarily resulted from a \$35.7 million increase in gross profit due in part to depreciation and amortization associated with the assets classified as those held for sale having been ceased in the second quarter of 2020, an \$1.3 million decrease in selling, general and administrative expenses, an \$1.3 million decrease in restructuring and other charges, a \$0.9 million decrease in research and development expenses and a \$0.3 million increase in foreign currency gain, net, which were offset in part by an \$1.3 million increase in income tax expense.

Net Income (Loss)

As a result of the foregoing, net income of \$5.4 million was recorded for the six months ended June 30, 2020 compared to net loss of \$43.6 million for the six months ended June 30, 2019. As discussed above, the decrease in net loss of \$49.1 million primarily resulted from a \$38.3 million increase in net income from discontinued operations and a \$10.7 million improvement in net loss from continuing operations.

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, cash flows from operations and 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 1. Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Note 3. Sales of Accounts Receivable and Receivable Discount Program” 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 June 30, 2020, we do not have any accounts payable on extended terms or payment deferral with our vendors.

On March 30, 2020, we entered into the BTA for the sale of our Foundry Services Group business and the Fab 4, which has a purchase price equal to the KRW equivalent of \$344.7 million in cash, subject to working capital adjustments set forth in the BTA. The sale is expected to close by September 2020, subject to customary closing conditions, whereupon we expect to use a portion of the cash received to repay indebtedness and for general corporate purposes. We currently believe that we will have sufficient cash reserves from cash on hand and expected cash from operations, as well as cash received from the consummation of the BTA, to fund our operations as well as capital expenditures for the next twelve months and the foreseeable future.

On January 17, 2017, we issued an aggregate of \$86.3 million in principal amount of our Exchangeable Notes. 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. In December 2018 and February 2019, we repurchased a principal amount equal to \$1.6 million and \$0.9 million, respectively, of the Exchangeable Notes in the open market. As of June 30, 2020, our Exchangeable Notes were reclassified as a current liability as their maturities were less than one year.

Working Capital

Our working capital balance as of June 30, 2020 was \$202.2 million, compared to \$245.5 million as of December 31, 2019. The \$43.4 million decrease was primarily attributable to a reclassification of our Exchangeable Notes of \$82.7 million, which was recorded as a current liability from the first quarter of 2020, which was offset in part by a \$41.2 million increase in cash and cash equivalents.

Cash Flows from Operating Activities

Cash inflow provided by operating activities totaled \$57.1 million for the six months ended June 30, 2020, compared to \$17.2 million of cash inflow provided by operating activities for the six months ended June 30, 2019. The net operating cash inflow for the six months ended June 30, 2020 reflects our net income of \$5.4 million, as adjusted favorably by \$52.9 million, which mainly consisted of net foreign currency loss, depreciation and amortization, provision for severance benefits, and net unfavorable impact of \$1.2 million from changes of operating assets and liabilities.

Cash Flows from Investing Activities

Cash outflow used in investing activities totaled \$11.8 million for the six months ended June 30, 2020, compared to \$20.2 million of cash outflow used in investing activities for the six months ended June 30, 2019. The \$8.4 million decrease was primarily attributable to a \$6.2 million decrease in purchase of plant, property and equipment, an \$1.8 million net decrease in hedge collateral and a \$0.4 million net decrease in guarantee deposits.

Cash Flows from Financing Activities

Cash outflow used in financing activities totaled \$0.7 million for the six months ended June 30, 2020, compared to \$4.0 million of cash outflow used in financing activities for the six months ended June 30, 2019. The financing cash outflow for the six months ended June 30, 2020 was primarily attributable to a payment of \$1.0 million for the repurchase of our common stock to satisfy tax withholding obligation in connection with the vesting of restricted stock units. The financing cash outflow for the six months ended June 30, 2019 was primarily attributable to a payment of \$1.2 million for the repurchases of 2021 Notes and Exchangeable Notes in the first quarter of 2019 and a payment of \$2.4 million for the repurchases of our common stock in January 2019 pursuant to our stock repurchase plan.

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For additional cash flow information associated with our discontinued operation, please see “Item 1. Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – Note 2 – Discontinued Operations and Assets Held for Sale” included elsewhere in this Report.

Capital Expenditures

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 six months ended June 30, 2020, capital expenditures for plant, property and equipment were \$8.8 million, a \$6.2 million, or 41.1%, decrease from \$15.0 million for the six months ended June 30, 2019. The decrease was mainly due to the timing of our equipment deployment. The capital expenditures for the six months ended June 30, 2020 and 2019 were related to meeting customer demand, supporting technology and facility improvement at our fabrication facilities.

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 our significant accounting policies, which are described further in Note 1 to our consolidated financial statements in our Annual Report on Form 10-K for our fiscal year ended December 31, 2019, or our 2019 Form 10-K, 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.

A description of our critical accounting policies that involve significant management judgement appears in our 2019 Form 10-K, under “Management’s Discussion and Analysis of Financial Conditions and Reports of Operations—Critical Accounting Policies and Estimates.” There have been no material changes in the matters for which we make accounting estimates in the preparation of our consolidated financial statements for the six months ended June 30, 2020, except for those related to discontinued operations as a result of changes in reporting that relate to the sale of the Foundry Services Group business and Fab 4.

Discontinued Operations. We review the presentation of the planned disposition of the Foundry Services Group business and Fab 4 based on the available information and events that have occurred. The review consists of evaluating whether the disposition meets the definition of a component for which the operations and cash flows are clearly distinguishable from the other components of the business, and if so, whether it is anticipated that after the disposal the cash flows of the component would be eliminated from continuing operations and whether the disposition represents a strategic shift that has a major effect on operations and financial results. In addition, we evaluate whether the Foundry Services Group business and Fab 4 have met the criteria as assets held for sale. In order for a planned disposition to be classified as assets held for sale, the established criteria must be met as of the reporting date, including an active program to market the sale and the expected disposition of within one year. The assets classified as held for sale are recorded at the lower of carrying amounts or estimated fair value less costs to sell and depreciation and amortization ceases on the that the held for sale criteria are met.

The Foundry Services Group business and Fab 4 is presented as discontinued operations beginning in the first quarter 2020 since all the criteria described above are met. For a divestiture that qualifies as a discontinued operation, all comparative periods presented are reclassified in the consolidated balance sheet. Additionally, the results of operations of a discontinued operation are reclassified to income or loss from discontinued operations, net of tax, for all periods presented. See “Item 1. Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – Note 2 - Discontinued Operations and Assets Held for Sale” for additional information.

Recent Accounting Pronouncements

For a full description of new accounting pronouncements and recently adopted accounting pronouncements, please see “Item 1. Interim Consolidated Financial Statements—Notes to Consolidated Financial Statements—Note 1. Business, Basis of Presentation and Significant Accounting Policies” in this Report.

Item 3. 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 June 30, 2020 for our Korean subsidiary, a 10% devaluation of the Korean won against the US dollar would have resulted in a decrease of \$0.3 million in our US dollar financial instruments and cash balances.

See “Note 9. Derivative Financial Instruments” to our consolidated financial statements under “Item 1. Interim Consolidated Financial Statements” and “Item 2. 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 June 30, 2020, \$83.74 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 June 30, 2020, \$224.25 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 interest rate risk related to the Exchangeable Notes and the 2021 Notes.

Item 4. Controls and Procedures

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 and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

In connection with the preparation of this Report, we carried out an evaluation under the supervision of and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, as of June 30, 2020, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2020.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended June 30, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

For a discussion of legal proceedings, see “Part I: Item 3. Legal Proceedings” of our 2019 Form 10-K.

See also “Part I: Item 1A. Risk Factors” and Note 18 of our 2019 Form 10-K for additional information.

Item 1A. Risk Factors

The Company is subject to risks and uncertainties, any of which could have a significant or material adverse effect on our business, financial condition, liquidity or consolidated financial statements. You should carefully consider the risk factors disclosed in Part I, Item 1A of our 2019 Form 10-K (including that the impact of the COVID-19 pandemic may also exacerbate the risks discussed therein), herein and other reports we have filed with the SEC. The risks described herein and therein are not the only ones we face. This information should be considered carefully together with the other information contained in this Report and the other reports and materials the Company files with the SEC.

Our business, results of operations and financial condition and prospects may be materially and adversely affected by the recent COVID-19 pandemic.

COVID-19, a virus causing potentially deadly respiratory tract infections, which has spread rapidly and enveloped most of the world, is a global public health crisis. On March 11, 2020, the World Health Organization characterized the COVID-19 outbreak as a pandemic. Governments in affected countries are imposing travel bans, quarantines and other emergency public health measures. In response to the virus, national and local governments in numerous countries around the world have implemented substantial lockdown measures, and other countries and local governments may enact similar policies. Private sector companies are also taking precautionary measures, such as requiring employees to work remotely, imposing travel restrictions and temporarily closing businesses and facilities. These restrictions, and future prevention and mitigation measures, are likely to have an adverse impact on global economic conditions, which could materially adversely affect our future operations. Uncertainties regarding the economic impact of the COVID-19 outbreak are likely to result in sustained market turmoil, which could also negatively impact our business, financial condition and cash flows.

These measures have impacted and may further impact our workforce and operations, the operations of our customers, and those of our respective vendors, suppliers, and partners. The disruptions to our operations caused by the COVID-19 outbreak may result in inefficiencies, delays and additional costs in our research and development, sales and marketing, and customer service efforts that we cannot fully mitigate through remote or other alternative work arrangements. Also, some suppliers of materials used in the production of our products may be located in areas that have been or will be more severely impacted by COVID-19, which could limit our ability to obtain sufficient materials for our products. In addition, the severe global economic disruption caused by COVID-19 may cause our customers and end-users of our products to suffer significant economic hardship, which could result in decreased demand for our products in the future and materially adversely affect our business, results of operations, financial condition (including liquidity) and prospects.

The impact of the COVID-19 pandemic continues to evolve and its duration and ultimate disruption on our customers, end-users, overall demand for our products, supply chain, and the related financial impact to us, cannot be estimated at this time. Should such disruption continue for an extended period of time, the impact could have a more severe adverse effect on our business, results of operations and financial condition (including liquidity). Additionally, weaker economic conditions generally could result in impairment in value of our tangible or intangible assets, or our ability to raise additional capital, if needed.

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Item 6. Exhibits.

<u>Exhibit Number</u>	<u>Description</u>
10.1*	MagnaChip Semiconductor Corporation 2020 Equity and Incentive Compensation Plan (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K filed on June 17, 2020).
10.2*	MagnaChip Semiconductor Corporation 2020 Form of Restricted Stock Units Agreement (Non-employee Directors) (incorporated by reference to Exhibit 99.2 to our Registration Statement on Form S-8 filed on July 15, 2020).
10.3*	MagnaChip Semiconductor Corporation 2020 Form of Restricted Stock Units Agreement (Section 16 Officers) (incorporated by reference to Exhibit 99.3 to our Registration Statement on Form S-8 filed on July 15, 2020).
10.4*	MagnaChip Semiconductor Corporation 2020 Form of Restricted Stock Units Agreement - Financial Performance (CEO) (incorporated by reference to Exhibit 99.4 to our Registration Statement on Form S-8 filed on July 15, 2020).
10.5*	MagnaChip Semiconductor Corporation 2020 Form of Restricted Stock Units Agreement - Financial Performance (Non-CEO Section 16 Officers) (incorporated by reference to Exhibit 99.5 to our Registration Statement on Form S-8 filed on July 15, 2020).
10.6*	MagnaChip Semiconductor Corporation 2020 Form of Restricted Stock Units Agreement - TSR Performance (CEO) (incorporated by reference to Exhibit 99.6 to our Registration Statement on Form S-8 filed on July 15, 2020).
10.7*	MagnaChip Semiconductor Corporation 2020 Form of Restricted Stock Units Agreement - TSR Performance (Non-CEO Section 16 Officers) (incorporated by reference to Exhibit 99.7 to our Registration Statement on Form S-8 filed on July 15, 2020).
10.8**	Executive Service Agreement, dated as of May 25, 2020, by and between Young Soo Woo, MagnaChip Semiconductor Corporation and MagnaChip Semiconductor, Ltd.
10.9**	Executive Service Agreement, dated as of June 1, 2020, by and between Chan Ho Park, MagnaChip Semiconductor Corporation and MagnaChip Semiconductor, Ltd.
31.1#	Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 of the Chief Executive Officer.
31.2#	Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 of the Principal Financial Officer.
32.1†	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Executive Officer.
32.2†	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Financial Officer.
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.
104	The cover page from this Quarterly Report on Form 10-Q, formatted in Inline XBRL.

Footnotes:

- # Filed herewith
- † Furnished herewith
- * Management contract, compensatory plan or arrangement

SIGNATURES

Pursuant to the requirements 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
(Registrant)

Dated: August 7, 2020

By: /s/ Young-Joon Kim
Young-Joon Kim
Chief Executive Officer
(Principal Executive Officer)

Dated: August 7, 2020

By: /s/ Young Soo Woo
Young Soo Woo
Chief Financial Officer
(Principal Financial Officer)

EXECUTIVE SERVICE AGREEMENT

This Executive Service Agreement (this “Agreement”), entered into on May 25, 2020 (the “Effective Date”), is made by and between Young Soo Woo (the “Executive”), on the one hand, and MagnaChip Semiconductor Corporation, a Delaware corporation (“Parent”), and MagnaChip Semiconductor, Ltd., a wholly owned subsidiary of Parent (“MSK” and together with Parent and each of its Affiliates that may engage the Executive from time to time, including any and all successors thereto, the “Company”), on the other hand.

RECITALS

- A. The Company wishes to engage the Executive, and the Executive wishes to provide services to the Company, as further set forth herein.
- B. The Company and the Executive desire to enter into this Agreement to set forth the rights and obligations of the parties hereto.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing and of the respective covenants and agreements set forth below, the parties hereto agree as follows:

1. Certain Definitions.

(a) “Affiliate” shall mean, with respect to any Person, any other Person directly or indirectly controlling, controlled by or under common control with such Person, where “control” shall have the meaning given such term under Rule 405 of the Securities Act of 1933, as amended.

(b) “Agreement” shall have the meaning set forth in the preamble hereto.

(c) “Annual Base Salary” shall have the meaning set forth in Section 3(a). For the avoidance of doubt, none of the Annual Bonus, the Signing Bonus or the Special Bonus shall be included in, or be a part of, the Annual Base Salary.

(d) “Annual Bonus” shall have the meaning set forth in Section 3(b).

(e) “Board” shall mean the Board of Directors of the Company.

(f) The Company shall have “Cause” to terminate the Executive’s engagement pursuant to Section 4(a)(iii) hereunder upon (i) the Executive’s conviction of, or a plea of *nolo contendere* to, a felony or other crime involving moral turpitude (or, in each case, equivalent crimes in a jurisdiction other than the United States), but excluding minor traffic violations; (ii) the Executive’s commission of fraud, embezzlement or misappropriation of funds; (iii) a breach by the Executive of his fiduciary duty to the Company; (iv) the Executive’s refusal to fulfill the Executive’s duties and responsibilities (other than by reason of death or Disability) to the Company; (v) the Executive’s material violation of any established lawful policy of the Company; (vi) the Executive’s material breach of any of the terms of any agreement the Executive has with the Company; (vii) the Executive’s habitual use of illicit drugs or habitual abuse of alcohol that affects his job performance; or (viii) any gross negligence, material misconduct or material wrongful act or omission on the Executive’s part in connection with the Executive’s duties and responsibilities to the

Company. The Company may terminate the Executive's engagement for Cause under this Agreement, following issuance to the Executive of written notice of the circumstances the Company believes constitute Cause, at any time within 90 days after it becomes aware of such circumstances; provided, however, that, if the basis for termination is curable, then the Executive shall have 15 days after receipt of such written notice to cure such basis, and if not cured, the Company may terminate the Executive's engagement for Cause at any time within 90 days after the expiration of such cure period. If, within 90 days subsequent to termination of Executive's engagement for any reason (other than by the Company for Cause), the Company determines that the Executive's engagement could have been terminated for Cause, the Executive's engagement will be deemed to have been terminated for Cause for all purposes, and the Executive will be required to disgorge to the Company all amounts received pursuant to this Agreement or otherwise on account of such termination that would not have been payable to the Executive had such termination been by the Company for Cause; provided, however, that the Company's ability to retroactively determine that the Executive's engagement could have been terminated for Cause under this sentence will cease upon the occurrence of a Change in Control.

(g) "CEO" shall mean the Chief Executive Officer of Parent.

(h) "Change in Control" has the meaning given to such term in the Equity Incentive Plan.

(i) "Code" shall mean the Internal Revenue Code of 1986, as amended.

(j) "Commencement Date" shall mean the first day on which the Executive reports to work with the Company.

(k) "Date of Termination" shall mean the effective date of termination of Executive's engagement, as set forth in Section 4.

(l) "Disability" shall mean a finding by the Company of the Executive's incapacitation through any illness, injury, accident or condition of either a physical or psychological nature that has resulted in his inability to perform the essential functions of his position, even with reasonable accommodations, for 180 calendar days during any period of 365 consecutive calendar days, and such incapacity is expected to continue.

(m) "Effective Date" shall have the meaning set forth in the preamble hereto.

(n) "Executive" shall have the meaning set forth in the preamble hereto.

(o) "Equity Awards" means the equity awards that the Executive may receive subject to the Board's approval and under the terms of the Equity Incentive Plan and standard forms of award agreements under the Equity Incentive Plan (the "Award Agreements").

(p) "Equity Incentive Plan" means, as applicable, the MagnaChip Semiconductor Corporation 2011 Equity Incentive Plan or any successor equity incentive plan of the Parent, as amended or amended and restated from time to time.

(q) "Final Base Salary" means the Executive's Annual Base Salary as in effect immediately prior to the termination of the Executive's engagement (or, if clause (i) or (ii) of the definition of "Good Reason" is implicated, immediately before any relevant diminution of the Executive's Annual Base Salary).

(r) The Executive shall have “Good Reason” to resign or otherwise terminate his engagement with the Company pursuant to Section 4(a)(y) in the event that any of the following actions are taken by the Company without his consent: (i) if upon or following a Change in Control, a diminution in the Executive’s Annual Base Salary or Target Annual Bonus opportunity; (ii) if prior to a Change in Control, a diminution in (A) the Executive’s Annual Base Salary, other than an across the board cumulative reduction of no more than 15% that applies in a similar manner to all similarly-situated members of the senior management of the Company or (B) the Executive’s Target Annual Bonus opportunity (other than a reduction that occurs as a result of a reduction described in the foregoing clause (A)); (iii) the Company’s material breach of any of the material terms of any material agreement between the Executive and the Company; or (iv) a non-temporary relocation of the Executive’s primary work location by the Company to a location that is more than 35 miles from the Executive’s principal place of service as of the date hereof (which the parties acknowledge is Seoul, South Korea and/or Cheongju, South Korea) and that increases the Executive’s one-way commute to work by more than 35 miles. The Executive will not have Good Reason to terminate his engagement and receive payments or benefits under Section 5(b) unless the Executive provides the Board and the CEO with written notice of the circumstances the Executive believes constitute Good Reason within 30 days after the occurrence of such circumstances. If the Company does not cure within 15 days after receipt of such written notice, then the Executive may terminate his engagement for Good Reason at any time within 90 days after the expiration of such cure period. If the Executive terminates his engagement prior to the expiration of the 15-day cure period or more than 90 days after the expiration of the cure period, the Executive will not be treated as having terminated his engagement for Good Reason.

(s) “Inventions” shall have the meaning set forth in Section 7(c)(i).

(t) “Notice of Termination” shall have the meaning set forth in Section 4(b).

(u) “Parent” shall have the meaning set forth in the preamble hereto.

(v) “Person” shall mean an individual, partnership, corporation, limited liability company, business trust, joint stock company, trust, unincorporated association, joint venture, governmental authority or other entity of whatever nature.

(w) “Proprietary Rights” shall have the meaning set forth in Section 7(c)(i).

(x) “Restricted Stock Unit” shall have the meaning set forth in the Equity Incentive Plan.

(y) “Target Annual Bonus” means the Executive’s target Annual Bonus, expressed as a percentage of the Annual Base Salary, under the terms of the Company’s cash bonus plan as is then in effect.

(z) “Term” shall have the meaning set forth in Section 2(b).

2. Executive’s Service.

(a) In General. The Company shall engage the Executive, and the Executive shall provide services to the Company, for the period set forth in Section 2(b), in the position(s) set forth in Section 2(c), and upon the other terms and conditions herein provided.

(b) Term. The term of this Agreement (the “Term”) shall begin on the Effective Date and remain in effect, until terminated as provided in Section 4. Notwithstanding anything herein to the contrary, the Executive’s engagement with the Company shall be “at-will”, and the Executive or the Company may terminate the Executive’s engagement for any reason or no reason at any time, in either case subject to Section 4.

(c) Position and Duties.

(i) During the Term, the Executive shall serve as the Chief Financial Officer of Parent and MSK, with responsibilities, duties and authority customary for such position; provided, however, that the Company may alter such responsibilities, duties and authority from time to time. The Executive shall also serve as an officer of other Affiliates of the Company as requested by the Company. Except as otherwise provided herein, the Executive shall not be entitled to any additional compensation for service as a member of the Board or other positions or titles he may hold with any Affiliate of the Company to the extent he is so appointed. The Executive shall report to the CEO or any other officer of the Company as may be designated by the Board or the CEO. The Executive agrees to observe and comply with the Company’s rules and policies as adopted from time to time by the Company. The Executive shall devote his full business time, skill, attention and best efforts to the performance of his duties hereunder; provided, however, that the Executive shall be entitled to (A) serve on civic, charitable and religious boards and (B) manage the Executive’s personal and family investments, in each case, to the extent that such activities do not materially interfere with the performance of the Executive’s duties and responsibilities hereunder, are not in conflict with the business interests of the Company or its Affiliates, and do not otherwise compete with the business of the Company or its Affiliates.

(ii) The Executive shall be principally based at the Company’s offices in Seoul, South Korea or Cheongju, South Korea. The Executive shall perform his duties and responsibilities to the Company at such principal place of service and at such other location(s) to which the Company may reasonably require the Executive to travel for Company business purposes.

3. Compensation and Related Matters.

(a) Annual Base Salary. During the Term, the Executive shall receive a base salary at a rate of Three Hundred Forty Million Korean Won (KRW 340,000,000) per annum, which shall be paid in accordance with the customary payroll practices of the Company (the “Annual Base Salary”).

(b) Annual Bonus. With respect to each calendar year that ends during the Term, the Executive shall be eligible to receive an annual cash bonus (the “Annual Bonus”) under the terms of the Company’s cash bonus plan as is then in effect. It is currently intended that the Board will set the Executive’s target Annual Bonus at 50% of the Executive’s Annual Base Salary, which target Annual Bonus may be increased by the Board in its discretion.

(c) Equity Compensation. Subject to Board approval and the Executive’s continued engagement on such date, as soon as practicable after the Commencement Date, the Executive will be granted a Restricted Stock Unit award for 18,000 shares of common stock of Parent (the “RSU Award”), which grant shall be under the terms of the Equity Incentive Plan and the applicable Award Agreement. The RSU Award shall vest over three (3) years, with one-third (1/3) of the RSU Award vesting on each of the first, second

and third anniversaries of the grant date, all in accordance with, and subject to the terms of, the Equity Incentive Plan. In addition, while the Executive is engaged to provide services to the Company, the Executive will be eligible to participate in the equity incentive program applicable to the Company's executives. It is currently anticipated that the Executive will receive additional Equity Awards in each of 2021 and 2022 under the then-current Equity Incentive Plan, with the target dollar value of such awards to be in line with the target value of Equity Awards received by similarly situated executives in such year and subject to the Executive's continued provision of his services to the Company. Such Equity Awards shall, in all case, be determined and approved by the Board in its sole discretion. Prior to receiving any Equity Award, including the RSU Award, the Executive must execute the Award Agreement(s) in the form(s) approved by the Board. Accordingly, the actual terms of any Equity Award, including the RSU Award, will be governed by the Equity Incentive Plan and the actual Award Agreement and documents evidencing the grant of such Equity Award, and not by any other terms set forth herein or otherwise.

(d) Benefits. During the Term, the Executive shall be entitled to participate in the benefit plans, programs and arrangements of the Company now (or, to the extent determined by the Board, hereafter) in effect, in accordance with their terms, including medical and welfare benefits and company automobile, all on the terms applicable to other similarly situated executives of the Company.

(e) Annual Vacation. During the Term, the Executive shall be entitled to paid-time-off (including vacation days) on an annual basis in accordance with the Company's applicable policies and practices. Under the policies applicable to other similarly situated executives of the Company, any unused paid-time-off (including vacation days) shall neither be carried over to the following year nor be compensated for. Any paid-time-off (including vacation days) shall be taken at the reasonable and mutual convenience of the Company and the Executive.

(f) Business Expenses. During the Term, the Company shall reimburse the Executive for all reasonable travel and other business expenses incurred by him in the performance of his duties to the Company, in accordance with the Company's expense reimbursement policies and procedures.

4. Termination. The Executive's engagement hereunder may be terminated without any breach of this Agreement only under the following circumstances:

(a) Circumstances.

(i) Death. The Executive's engagement hereunder shall terminate upon his death.

(ii) Disability. If the Executive has incurred a Disability, the Company may give the Executive written notice of its intention to terminate the Executive's engagement. In that event, the Executive's engagement with the Company shall terminate effective on the later of the 30th day after receipt of such notice by the Executive and the date specified in such notice; provided, however, that, if the Executive shall have returned to full-time performance of his duties hereunder within the 30-day period following receipt of such notice and shall have reasonably demonstrated that the Executive is not subject to a Disability, then the Executive's engagement shall not be terminated pursuant to this clause (ii).

(iii) Termination with Cause. The Company may terminate the Executive's engagement with Cause.

(iv) Termination without Cause. The Company may terminate the Executive's engagement without Cause.

(v) Resignation with Good Reason. The Executive may resign from his engagement with Good Reason.

(vi) Resignation without Good Reason. The Executive may resign from his engagement without Good Reason upon not less than thirty (30) days' advance written notice to the Board and the Company's Chief Executive Officer.

(b) Notice of Termination. Any termination of the Executive's engagement with the Company, whether by the Company or the Executive under this Section 4 (other than termination pursuant to Section 4(a)(i)), shall be communicated by written notice to the other party hereto (i) indicating the specific termination provision in this Agreement relied upon, (ii) except with respect to a termination pursuant to Section 4(a)(iv) or (vi), setting forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's engagement under the provision so indicated, and (iii) specifying a Date of Termination as provided herein (a "Notice of Termination"). If the Company delivers a Notice of Termination under Section 4(a)(i), the Date of Termination shall be at least thirty (30) days following the date of such notice; provided, however, that such notice need not specify a Date of Termination, in which case the Date of Termination shall be determined pursuant to Section 4(a)(ii). If the Company delivers a Notice of Termination under Section 4(a)(iii) or 4(a)(iv), the Date of Termination shall be, in the Company's sole discretion, the date on which the Executive receives such notice or any subsequent date selected by the Company. If the Executive delivers a Notice of Termination under Section 4(a)(v) or (a)(vi), the Date of Termination shall be at least thirty (30) days following the date of such notice; provided, however, that the Company may, in its sole discretion, accelerate the Date of Termination to any date that occurs following the Company's receipt of such notice, without changing the characterization of such termination as voluntary, even if such date is prior to the date specified in such notice. The failure by the Company or the Executive to set forth in the Notice of Termination any fact or circumstance that contributes to a showing of Cause or Good Reason shall not waive any right of the Company or the Executive hereunder or preclude the Company or the Executive from asserting such fact or circumstance in enforcing the Company's or the Executive's rights hereunder.

(c) Termination and Resignation of All Positions. Upon termination of the Executive's engagement for any reason, the Executive agrees to resign, as of the Date of Termination or such other date requested by the Company, from all positions and offices that the Executive then holds with the Company and its Affiliates. In addition, as applicable, if the Executive fails to resign from any such positions or offices, the Company shall be relieved of its obligations under Section 5(b).

5. Company Obligations upon Termination of the Executive's Engagement.

(a) In General. Subject to Section 11(a), upon termination of the Executive's engagement for any reason, the Executive (or the Executive's estate) shall be entitled to receive (i) any amount of the Executive's Annual Base Salary earned through the Date of Termination not theretofore paid, (ii) any Annual Bonus for the year prior to the year in

which the Date of Termination occurred that was earned but not yet paid, (iii) any expenses owed to the Executive under Section 3(f), and (iv) any vested payment or benefit arising from the Executive's participation in, or benefits under, any qualified benefit plans, programs or arrangements under Section 3(d) (other than severance plans, programs or arrangements), which amounts shall be payable in accordance with the terms and conditions of such benefit plans, programs or arrangements including, where applicable, any death and disability benefits (the "Accrued Obligations"). Notwithstanding anything herein to the contrary, upon a Termination with Cause, and only in the case of such a termination, the Accrued Obligations shall not include the amount set forth in clause (ii) of the preceding sentence or any other amounts or benefits not payable in accordance with the terms and conditions of any benefit plan, program or arrangement.

(b) Termination without Cause or Resignation with Good Reason. Subject to Section 11(a) and subject to the Executive's continued compliance with the covenants contained in Sections 6, 7 and 10, if the Company terminates the Executive's engagement without Cause pursuant to Section 4(a)(iv) or the Executive resigns from his engagement with Good Reason pursuant to Section 4(a)(v), the Company shall, in addition to the Accrued Obligations:

(i) continue to pay the Final Base Salary in accordance with the Company's customary payroll practices during the period beginning on the Date of Termination and ending on the earlier to occur of (A) six (6) months after the Date of Termination and (B) the first date that the Executive violates any covenant contained in Section 6 or 7 (the "Salary Payment"), and if the Date of Termination occurs after June 30 of the calendar year in which the Date of Termination occurs, pay the Executive a prorated portion of the Annual Bonus payable with respect to the calendar year in which such termination occurs (which prorated amount shall equal the amount of the Annual Bonus multiplied by a fraction, (x) the numerator of which equals the number of days that have elapsed between January 1 of such calendar year and the Date of Termination and (y) the denominator of which equals 365), based on actual performance achievement for such year, and payable if and when annual bonuses are paid to other senior executives of the Company with respect to such year (the "Pro Rata Bonus", together with the Salary Payment, the "Severance Payment"); provided, however, that, if the Company terminates the Executive's engagement without Cause pursuant to Section 4(a)(iv) or the Executive resigns from his engagement with Good Reason pursuant to Section 4(a)(v), in each case, either (x) during a period of time when the Company is party to a definitive corporate transaction agreement, the consummation of which would result in a Change in Control, or (y) within 18 months following a Change in Control (such a termination a "CIC Qualified Termination"), then the Severance Payment shall instead be equal to the Final Base Salary, payable over 12 months, in each case so long as the Release (as defined below) has become effective and the Executive has not violated any covenant contained in Section 6 or 7, in which case the Severance Payment shall be forfeited; and

(ii) provide for vesting of any outstanding unvested Equity Awards, as set forth in the Equity Incentive Plan and the applicable Award Agreement(s);

provided, however, that all payments and benefits to be paid or provided pursuant to this Section 5(b) shall commence on the 60th day following the Date of Termination, and, only with respect to any cash payments, the initial installment of such payments shall include a lump-sum payment of all amounts accrued under this Section 5(b) from the Date of Termination through the date of such initial payment.

Notwithstanding anything herein to the contrary, if the Executive breaches any of the covenants contained in Sections 6 and 7, the Company shall have the right to cease providing any payments or benefits under this Section 5(b) and, if requested, the Executive shall repay to the Company within 60 days of such request any previously paid payments or benefits under this Section 5(b); provided that the foregoing shall not apply unless the Company provides the Executive with written notice of the circumstances it believes constitutes a breach of such covenants within 90 days after it becomes aware of such circumstances; provided further that, if the basis for the alleged breach is curable, then the Executive shall have 15 days after receipt of such written notice to cure such basis.

Payment of the amounts and benefits under this Section 5(b) is in lieu of any other severance or separation pay payable to the Executive whether under any previous agreement, offer letter or severance program, plan or policy, applicable law (including the laws of the Republic of Korea) or other statute, or otherwise.

(c) Release. Notwithstanding anything herein to the contrary, the amounts payable and benefits to be provided to the Executive under Section 5(b), other than the Accrued Obligations, shall be contingent upon and subject to the Executive's (or the Executive's estate's, if applicable) execution and non-revocation of a general waiver and release of claims agreement generally consistent with the form attached as Exhibit A hereto (as appropriately modified to comply with applicable law, the "Release") (and the expiration of any applicable revocation period), on or prior to the 60th day following the Date of Termination.

(d) Survival. The obligations of any of the parties under this Agreement which by their nature may require either partial or total performance after the termination of the Term or this Agreement (including those under Sections 6, 7, 8, 9 and 10) will survive any termination of this Agreement.

6. Non-Competition; Non-Solicitation; Non-Hire.

(a) To the fullest extent permitted by applicable law, the Executive agrees that during the Executive's engagement with the Company, and for the 12-month period following termination of the Executive's engagement for any reason, the Executive will not, directly or indirectly, have any equity or equity-based interest, or work or otherwise provide services as an employee, contractor, officer, owner, consultant, partner, director or otherwise, in any business anywhere in the world that competes with any of the businesses of the Company. Notwithstanding the foregoing, the Executive shall be permitted to acquire a passive stock or equity interest in such a business, provided that the stock or other equity interest acquired is not more than five percent (5%) of the outstanding interest in such business. Notwithstanding anything herein to the contrary, if prior to the expiration of the aforementioned 12-month period the Executive enters into any agreement that obligates the Executive to provide any form of services to the Company, then such 12-month period shall commence on the date that the Executives ceases to provide services under such agreement.

(b) To the fullest extent permitted by applicable law, the Executive agrees that during the Executive's engagement with the Company, and for the 12-month period following termination of the Executive's engagement for any reason, the Executive will not, directly or indirectly, on the Executive's own behalf or on behalf of another (i) solicit, induce or attempt to solicit or induce any officer, director, employee or consultant of the Company to terminate their relationship with or leave the Company, or in any way interfere with the

relationship between the Company, on the one hand, and any officer, director, employee or consultant thereof, on the other hand, (ii) hire (or other similar arrangement) any Person (in any capacity whether as an officer, director, employee or consultant) who is, or at any time in the 12 months preceding the Date of Termination was, an officer, director, employee or consultant of the Company or (iii) induce or attempt to induce any customer, supplier, prospect, licensee or other business relation of the Company to cease doing business with the Company, or in any way interfere with the relationship between any such customer, supplier, prospect, licensee or business relation, on the one hand, and the Company, on the other hand.

(c) In the event that the terms of this Section 6 shall be determined by any court of competent jurisdiction to be unenforceable by reason of its extending for too great a period of time or over too great a geographical area or by reason of its being too extensive in any other respect, it will be interpreted to extend only over the maximum period of time for which it may be enforceable, over the maximum geographical area as to which it may be enforceable, or to the maximum extent in all other respects as to which it may be enforceable, all as determined by such court in such action. The Executive hereby acknowledges that the terms of this Section 6 are reasonable in terms of duration, scope and area restrictions and are necessary to protect the goodwill of the Company. The Executive hereby authorizes the Company to inform any future employer or prospective employer of the existence and terms of Sections 6 and 7 without liability for interference with the Executive's employment or prospective employment.

7. Non-Disclosure of Confidential Information; Non-Disparagement; Intellectual Property.

(a) Non-Disclosure of Confidential Information; Return of Property. The Executive recognizes and acknowledges that he has access to confidential information and/or has had or will have material contact with the Company's customers, suppliers, licensees, representatives, agents, partners, licensors or business relations. The Executive agrees that during his engagement and in perpetuity thereafter, the Executive shall maintain in confidence and shall not directly, indirectly or otherwise, use, disseminate, disclose or publish, or use for the Executive's benefit or the benefit of any Person, any confidential or proprietary information or trade secrets of or relating to the Company, including information with respect to the Company's operations, processes, products, inventions, business practices, finances, principals, vendors, suppliers, customers, potential customers, marketing methods, costs, prices, contractual relationships, regulatory status, compensation paid to employees or other terms of employment, or deliver to any Person any document, record, notebook, computer program or similar repository of or containing any such confidential or proprietary information or trade secrets. Upon termination of the Executive's engagement for any reason, the Executive shall promptly deliver to the Company all correspondence, drawings, manuals, letters, notes, notebooks, reports, programs, plans, proposals, financial documents or any other documents concerning the Company's customers, business plans, marketing strategies, products or processes. The Executive may respond to a lawful and valid subpoena or other legal process but shall give the Company the earliest possible notice thereof, shall, as much in advance of the return date as possible, make available to the Company and its counsel the documents and other information sought and, if requested by the Company, shall reasonably assist such counsel in resisting or otherwise responding to such process.

(b) Non-Disparagement. The Executive shall not, at any time during his engagement and in perpetuity thereafter, directly or indirectly, knowingly disparage, criticize or otherwise make derogatory statements regarding the Company, or any of its successors, directors or officers. The foregoing shall not be violated by the Executive's truthful responses to legal process or inquiry by a governmental authority.

(c) Intellectual Property Rights.

(i) The Executive agrees that the results and proceeds of the Executive's services for the Company (including any trade secrets, products, services, processes, know-how, designs, developments, innovations, analyses, drawings, reports, techniques, formulas, methods, developmental or experimental work, improvements, discoveries, inventions, ideas, source and object codes, programs, matters of a literary, musical, dramatic or otherwise creative nature, writings and other works of authorship) resulting from services performed for the Company and any works in progress, whether or not patentable or registrable under copyright or similar statutes, that were made, developed, conceived or reduced to practice or learned by the Executive, either alone or jointly with others (collectively, "Inventions"), shall be works-made-for-hire and the Company (or, if applicable or as directed by the Company) shall be deemed the sole owner throughout the universe of any and all trade secret, patent, copyright and other intellectual property rights (collectively, "Proprietary Rights") of whatsoever nature therein, whether or not now or hereafter known, existing, contemplated, recognized or developed, with the right to use the same in perpetuity in any manner the Company determines in its sole discretion, without any further payment to the Executive whatsoever. If, for any reason, any of such results and proceeds shall not legally be a work-made-for-hire and/or there are any Proprietary Rights which do not accrue to the Company under the immediately preceding sentence, then the Executive hereby irrevocably assigns and agrees to assign any and all of the Executive's right, title and interest thereto, including any and all Proprietary Rights of whatsoever nature therein, whether or not now or hereafter known, existing, contemplated, recognized or developed, to the Company (or, if applicable or as directed by the Company), and the Company or such Affiliates shall have the right to use the same in perpetuity throughout the universe in any manner determined by the Company or such Affiliates without any further payment to the Executive whatsoever. As to any Invention that the Executive is required to assign, the Executive shall promptly and fully disclose to the Company all information known to the Executive concerning such Invention. The Executive hereby waives and quitclaims to the Company any and all claims, of any nature whatsoever, that the Executive now or may hereafter have for infringement of any Proprietary Rights assigned hereunder to the Company.

(ii) The Executive agrees that, from time to time, as may be requested by the Company and at the Company's sole cost and expense, the Executive shall do any and all things that the Company may reasonably deem useful or desirable to establish or document the Company's exclusive ownership throughout the United States of America or any other country of any and all Proprietary Rights in any such Inventions, including the execution of appropriate copyright and/or patent applications or assignments. To the extent the Executive has any Proprietary Rights in the Inventions that cannot be assigned in the manner described above, the Executive unconditionally and irrevocably waives the enforcement of such Proprietary Rights. This Section 7(c)(ii) is subject to and shall not be deemed to limit, restrict or constitute any waiver by the Company of any Proprietary Rights of ownership to which the Company may be entitled by operation of law by virtue of the Executive's engagement with the Company. The Executive further agrees that, from time to time, as may be requested by the Company and at the Company's sole cost and expense, the Executive shall assist the Company in every proper and lawful way to obtain and from time to time enforce Proprietary Rights relating to Inventions in any and all countries. To this end, the Executive shall

execute, verify and deliver such documents and perform such other acts (including appearances as a witness) as the Company may reasonably request for use in applying for, obtaining, perfecting, evidencing, sustaining and enforcing such Proprietary Rights and the assignment thereof. In addition, the Executive shall execute, verify and deliver assignments of such Proprietary Rights to the Company or its designees. The Executive's obligation to assist the Company with respect to Proprietary Rights relating to such Inventions in any and all countries shall continue beyond the termination of the Executive's engagement with the Company.

(d) Protected Disclosures.

(i) Nothing in this Agreement will preclude, prohibit or restrict the Executive from (A) communicating with, any federal, state or local administrative or regulatory agency or authority, including the Securities and Exchange Commission (the "SEC"); (B) participating or cooperating in any investigation conducted by any governmental agency or authority; or (C) filing a charge of discrimination with the United States Equal Employment Opportunity Commission or any other federal state or local administrative agency or regulatory authority.

(ii) Nothing in this Agreement, or any other agreement between the parties, prohibits or is intended in any manner to prohibit, the Executive from (A) reporting a possible violation of federal or other applicable law or regulation to any governmental agency or entity, including the Department of Justice, the SEC, the U.S. Congress and any governmental agency Inspector General, or (B) making other disclosures that are protected under whistleblower provisions of federal law or regulation. This Agreement does not limit the Executive's right to receive an award (including a monetary reward) for information provided to the SEC. The Executive does not need the prior authorization of anyone at the Company to make any such reports or disclosures, and the Executive is not required to notify the Company that the Executive has made such reports or disclosures.

(iii) Nothing in this Agreement or any other agreement or policy of the Company is intended to interfere with or restrain the immunity provided under 18 U.S.C. §1833(b). The Executive cannot be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that is made (A) (1) in confidence to federal, state or local government officials, directly or indirectly, or to an attorney, and (2) for the purpose of reporting or investigating a suspected violation of law; (B) in a complaint or other document filed in a lawsuit or other proceeding, if filed under seal; or (C) in connection with a lawsuit alleging retaliation for reporting a suspected violation of law, if filed under seal and does not disclose the trade secret, except pursuant to a court order.

(iv) The foregoing provisions regarding protected disclosures are intended to comply with all applicable laws. If any laws are adopted, amended or repealed after the execution of this Agreement, this Section 7(e) shall be deemed to be amended to reflect the same.

8. Injunctive Relief. The Executive recognizes and acknowledges that a breach of any of the covenants contained in Sections 6 and 7 will cause irreparable damage to the Company and its goodwill, the exact amount of which will be difficult or impossible to ascertain, and that the remedies at law for any such breach will be inadequate. Accordingly, the Executive agrees that in the event of a breach or threatened breach of any of the covenants contained in Sections 6 and 7, in addition to any other remedy that may be available at law or in equity,

the Company will be entitled to specific performance and injunctive relief (without posting a bond). In the event of any breach or violation by the Executive of any of the covenants contained in Sections 6 and 7, the time period of such covenant with respect to the Executive shall, to the fullest extent permitted by law, be tolled until such breach or violation is resolved.

9. Indemnification. During the Executive's engagement as a director or officer (or both) of Parent, and at all times thereafter during which the Executive may be subject to liability in connection with the Executive's performance of his duties as a director or officer (or both) of Parent, the Executive shall be entitled to the protection set forth in the Indemnification Agreement between the Executive and the Company to be entered into on or about the Commencement Date, in addition to the protection of any insurance policies the Company may elect to maintain generally for the benefit of its directors and officers against all costs, charges, and expenses incurred or sustained by him in connection with any action, suit or proceeding to which he may be made a party by reason of his being or having been a director, officer or employee of the Company, as well as any rights the Executive may have under the Company's articles of incorporation and bylaws (in each case, other than any dispute, claim or controversy arising under or relating to this Agreement or otherwise arising under or relating to the Executive's engagement, equity ownership or compensation). Notwithstanding anything herein to the contrary, the Executive's rights under this Section 9 shall survive the termination or expiration of this Agreement for any reason.

10. Cooperation. The Executive agrees that, subject to the Executive's reasonable availability, during and after the Executive's engagement with the Company, and without the necessity of the Company obtaining a subpoena or court order, the Executive shall provide reasonable cooperation in connection with any suit, action or proceeding (or any appeal from any suit, action or proceeding), and any investigation and/or defense of any claims asserted against the Company Releasees (as defined in the Release), which relates to events occurring during the Executive's engagement (including furnishing relevant information and materials to the Company or its designee and/or providing testimony at depositions and at trial); provided that the Company shall reimburse the Executive for reasonable out-of-pocket expenses the Executive incurs that are associated with any such cooperation; provided further that any such cooperation occurring after the termination of the Executive's engagement shall be scheduled to the extent reasonably practicable so as not to unreasonably interfere with the Executive's business or personal affairs. Notwithstanding anything herein to the contrary, the preceding cooperation covenant shall not apply to any suit, action, proceeding, investigation, defense or claim that arises out of or relates to a dispute between the Executive and any of the Company Releasees.

11. Section 409A of the Code.

(a) General. The parties hereto acknowledge and agree that, to the extent applicable, this Agreement shall be interpreted in accordance with, and incorporate the terms and conditions required by, Section 409A of the Code and the Department of Treasury Regulations and other interpretive guidance issued thereunder, including any such regulations or other guidance that may be issued after the Effective Date ("Section 409A"). Notwithstanding anything herein to the contrary, in the event that the Company determines that any amounts payable hereunder will be taxable currently to the Executive under Section 409A(a)(1)(A) of the Code and related Department of Treasury guidance, the Company and the Executive shall cooperate in good faith to (i) adopt such amendments to this Agreement and appropriate policies and procedures, including amendments and policies

with retroactive effect, that they mutually determine to be necessary or appropriate to preserve the intended tax treatment of the benefits provided by this Agreement, to preserve the economic benefits of this Agreement, and to avoid less-favorable accounting or tax consequences for the Company, and/or (ii) take such other actions as mutually determined to be necessary or appropriate to exempt the amounts payable hereunder from Section 409A or to comply with the requirements of Section 409A and thereby avoid the application of penalty taxes thereunder; provided, however, that this Section 11(a) does not create an obligation on the part of the Company to modify this Agreement and does not guarantee that the amounts payable hereunder will not be subject to interest or penalties under Section 409A, and in no event whatsoever shall the Company be liable for any additional tax, interest or penalties that may be imposed on the Executive as a result of Section 409A or any damages for failing to comply with Section 409A.

(b) Separation from Service under Section 409A. To the extent Section 409A is applicable, notwithstanding any provision to the contrary in this Agreement: (i) no amount shall be payable pursuant to Section 5(a) or (b) unless the termination of the Executive's engagement constitutes a "separation from service" within the meaning of Section 1.409A-1(h) of the Department of Treasury Regulations; (ii) if the Executive is deemed at the time of his separation from service to be a "specified employee" for purposes of Section 409A(a)(2)(B)(i) of the Code, to the extent that delayed commencement of any portion of the termination benefits to which the Executive is entitled under this Agreement (after taking into account all exclusions applicable to such termination benefits under Section 409A), including any portion of the additional compensation awarded pursuant to Section 5(a) or (b), is required in order to avoid a prohibited distribution under Section 409A(a)(2)(B)(i) of the Code, such portion of the Executive's termination benefits shall not be provided to the Executive prior to the earlier of (A) the expiration of the six-month period measured from the date of the Executive's "separation from service" with the Company (as such term is defined in the Department of Treasury Regulations issued under Section 409A) and (B) the date of the Executive's death; provided that, upon the earlier of such dates, all payments deferred pursuant to this Section 11(b)(ii) shall be paid to the Executive in a lump sum, and any remaining payments due under this Agreement shall be paid as otherwise provided herein; (iii) the determination of whether the Executive is a "specified employee" for purposes of Section 409A(a)(2)(B)(i) of the Code as of the time of his separation from service shall be made by the Company in accordance with the terms of Section 409A of the Code and applicable guidance thereunder (including Section 1.409A-1(i) of the Department of Treasury Regulations and any successor provision thereto); (iv) for purposes of Section 409A of the Code, the Executive's right to receive installment payments pursuant to Section 5 shall be treated as a right to receive a series of separate and distinct payments; (v) if the sixty day period following the Date of Termination ends in the calendar year following the year that includes the Date of Termination, then payment of any amount that is conditioned upon the execution of the Release and is subject to Section 409A shall not be paid until the first day of the calendar year following the year that includes the Date of Termination, regardless of when the Release is signed; and (vi) to the extent that any reimbursement of expenses or in-kind benefits constitutes "deferred compensation" under Section 409A, such reimbursement or benefit shall be provided no later than December 31 of the year following the year in which the expense was incurred. The amount of expenses reimbursed in one year shall not affect the amount eligible for reimbursement in any subsequent year. The amount of any in-kind benefits provided in one year shall not affect the amount of in-kind benefits provided in any other year.

12. Section 280G of the Code.

(a) If there is a change of ownership or effective control or change in the ownership of a substantial portion of the assets of a corporation (within the meaning of Section 280G of the Code) and any payment or benefit (including payments and benefits pursuant to this Agreement) that the Executive would receive from the Company or otherwise ("Transaction Payment") would (i) constitute a "parachute payment" within the meaning of Section 280G of the Internal Revenue Code of 1986, and (ii) but for this sentence, be subject to the excise tax imposed by Section 4999 of the Code (the "Excise Tax"), then the Company shall cause to be determined, before any amounts of the Transaction Payment are paid to the Executive, which of the following two alternative forms of payment would result in the Executive's receipt, on an after-tax basis, of the greater amount of the Transaction Payment notwithstanding that all or some portion of the Transaction Payment may be subject to the Excise Tax: (1) payment in full of the entire amount of the Transaction Payment (a "Full Payment") or (2) payment of only a part of the Transaction Payment so that the Executive receives the largest payment possible without the imposition of the Excise Tax (a "Reduced Payment"). For purposes of determining whether to make a Full Payment or a Reduced Payment, the Company shall cause to be taken into account all applicable federal, state and local income taxes and the Excise Tax (all computed at the highest applicable marginal rate, net of the maximum reduction in federal income taxes which could be obtained from a deduction of such state and local taxes). If a Reduced Payment is made, the reduction in payments and/or benefits will occur in the following order: (1) first, reduction of cash payments, in reverse order of scheduled payment date (or if necessary, to zero), (2) then, reduction of non-cash and non-equity benefits provided to the Executive, on a pro rata basis (or if necessary, to zero), and (3) then, cancellation of the acceleration of vesting of equity award compensation in the reverse order of the date of grant of the Executive's equity awards.

(b) Unless the Executive and the Company otherwise agree in writing, any determination required under this section shall be made in writing by the Company's independent public accountants (the "Accountants"), whose determination shall be conclusive and binding upon the Executive and the Company for all purposes. For purposes of making the calculations required by this section, the Accountants may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code. The Accountants shall provide detailed supporting calculations to the Company and the Executive as requested by the Company or the Executive. The Executive and the Company shall furnish to the Accountants such information and documents as the Accountants may reasonably request in order to make a determination under this section. The Company shall bear all costs the Accountants may reasonably incur in connection with any calculations contemplated by this Section 12(b).

13. Assignment and Successors. The Company may assign its rights and obligations under this Agreement to any entity, including any successor to all or substantially all the assets of the Company, by merger or otherwise, and may assign or encumber this Agreement and its rights hereunder as security for indebtedness of the Company and its Affiliates. The Executive may not assign his rights or obligations under this Agreement to any individual or entity. This Agreement shall be binding upon and inure to the benefit of the Company and the Executive and their respective successors, assigns, personnel, legal representatives, executors, administrators, heirs, distributees, devisees and legatees, as applicable. In the event of the Executive's death following a termination of his engagement, all unpaid amounts otherwise due to the Executive (including under Section 5) shall be paid to his estate.

14. Governing Law. This Agreement shall be governed, construed, interpreted, and enforced in accordance with the substantive laws of the State of Delaware, without reference to the principles of conflicts of law of Delaware or any other jurisdiction, and where applicable, the laws of the United States.

15. Validity. The invalidity or unenforceability of any provision or provisions of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

16. Notices. Any notice, request, claim, demand, document, and other communication hereunder to any party hereto shall be effective upon receipt (or refusal of receipt) and shall be in writing and delivered personally or sent by telex, telecopy, email or sent by nationally recognized overnight courier or certified or registered mail, postage prepaid, to the following address (or at any other address as any party hereto shall have specified by notice in writing to the other party hereto):

(a) If to the Company, to it at its current executive offices, Attn: Chief Executive Officer.

(b) If to the Executive, at his most recent address on the payroll records of the Company.

17. Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original, but all of which together will constitute one and the same Agreement.

18. Entire Agreement. The terms of this Agreement (together with the Indemnification Agreement between Parent and the Executive, any pre-invention assignment agreements with the Company and any other agreements and instruments contemplated hereby or referred to herein) are intended by the parties hereto to be the final expression of their agreement with respect to the Executive's engagement with the Company and its Affiliates and to supersede any and all prior agreements, communications expressing the Company's offer to the Executive, severance agreements and similar agreements, plans, provisions, understandings or arrangements, whether written or oral, and all such prior agreements, plans, provisions, understandings or arrangements shall be null and void in their entirety and of no further force or effect as of the Effective Date. The parties hereto further intend that this Agreement shall constitute the complete and exclusive statement of its terms and that no extrinsic evidence whatsoever may be introduced in any judicial, administrative or other legal proceeding to vary the terms of this Agreement.

19. Amendments; Waivers. This Agreement may not be modified, amended or terminated except by an instrument in writing signed by the Executive and a duly authorized officer of the Company that expressly identifies the amended provision of this Agreement. By an instrument in writing similarly executed and similarly identifying the waived compliance, the Executive or a duly authorized officer of the Company may waive compliance by the other party or parties with any provision of this Agreement that such other party was or is obligated to comply with or perform; provided, however, that such waiver shall not operate as a waiver of, or estoppel with respect to, any other or subsequent failure to comply or perform. No failure to exercise and no delay in exercising any right, remedy or power hereunder shall preclude any other or further exercise of any other right, remedy or power provided herein or by law or in equity.

20. No Inconsistent Actions. The parties hereto shall not voluntarily undertake or fail to undertake any action or course of action inconsistent with the provisions or essential intent of this Agreement. Furthermore, it is the intent of the parties hereto to act in a fair and reasonable manner with respect to the interpretation and application of the provisions of this Agreement.

21. Construction. This Agreement shall be deemed drafted equally by both of the parties hereto. Its language shall be construed as a whole and according to its fair meaning. Any presumption or principle that the language is to be construed against any party shall not apply. The headings in this Agreement are only for convenience and are not intended to affect construction or interpretation. Any references to paragraphs, subparagraphs, sections or subsections are to those parts of this Agreement, unless the context clearly indicates to the contrary. Also, unless the context clearly indicates to the contrary: (a) the plural includes the singular, and the singular includes the plural; (b) “and” and “or” are each used both conjunctively and disjunctively; (c) “any,” “all,” “each,” or “every” means “any and all,” and “each and every”; (d) “includes” and “including” are each “without limitation”; and (e) “herein,” “hereof,” “hereunder,” and other similar compounds of the word “here” refer to the entire Agreement and not to any particular paragraph, subparagraph, section or subsection.

22. Dispute Resolution. The parties agree that any suit, action or proceeding brought by or against such party in connection with this Agreement shall be brought exclusively in the United States District Court for the District of Delaware to the extent that federal jurisdiction exists, and in the Delaware Chancery Court to the extent that federal jurisdiction does not exist. Each party expressly and irrevocably consents and submits to the jurisdiction and venue of each such court in connection with any such legal proceeding, including to enforce any settlement, order or award, and such party agrees to accept service of process by the other party or any of its agents in connection with any such proceeding. EACH PARTY HEREBY IRREVOCABLY WAIVES ALL RIGHT TO A TRIAL BY JURY IN ANY SUIT, ACTION OR OTHER PROCEEDING INSTITUTED BY OR AGAINST SUCH PARTY IN RESPECT OF ITS RIGHTS OR OBLIGATIONS HEREUNDER.

23. Enforcement. If any provision of this Agreement is held to be illegal, invalid or unenforceable under present or future laws effective during the term of this Agreement, such provision shall be fully severable, this Agreement shall be construed and enforced as if such illegal, invalid or unenforceable provision were never a part of this Agreement, and the remaining provisions of this Agreement shall remain in full force and effect and shall not be affected by the illegal, invalid or unenforceable provision or by its severance from this Agreement. Furthermore, in lieu of such illegal, invalid or unenforceable provision, there shall be added automatically as part of this Agreement a provision as similar in terms to such illegal, invalid or unenforceable provision as may be possible and be legal, valid and enforceable.

24. Withholding. The Company shall be entitled to withhold from any amounts payable under this Agreement any federal, state, local, and foreign withholding and other taxes and charges that the Company is required to withhold. The Company shall be entitled to rely on an opinion of counsel if any questions as to the amount or requirement of withholding shall arise.

25. Clawback. To the extent required by applicable law (including Section 304 of the Sarbanes-Oxley Act and Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act) and/or the rules and regulations of any securities exchange or inter-dealer quotation service on which equity of the Company or Parent is listed or quoted, or if so required pursuant to a written policy adopted by the Company or Parent, payments under this Agreement or in respect of Company or Parent equity incentive awards shall be subject (including on a retroactive basis) to clawback, forfeiture or similar requirements (and such requirements shall be deemed incorporated by reference into this Agreement and all agreements governing the terms of Company or Parent incentive equity compensation).

26. Other Benefit Plans. No payment under this Agreement shall be taken into account in determining any benefits under any pension, retirement, profit sharing, group insurance or other benefit plan of the Company except as expressly required otherwise by law or the terms of such plan.

27. Representations. The Executive represents, warrants and covenants that (i) that he has read and understands this Agreement, is fully aware of its legal effect, has not acted in reliance upon any representations or promises made by the Company other than those contained in writing herein, and has entered into this Agreement freely based on his own judgment, (ii) Executive has the full right, authority and capacity to enter into this Agreement and perform Executive's obligations hereunder, (iii) Executive is not bound by any agreement that conflicts with or prevents or restricts the full performance of Executive's duties and obligations to the Company hereunder during or after the Term, (iv) the execution and delivery of this Agreement shall not result in any breach or violation of, or a default under, any existing obligation, commitment or agreement to which Executive is subject, and (v) the Executive shall keep all terms of this Agreement confidential, except with respect to disclosure to the Executive's spouse, accountants or attorneys, each of whom shall agree to keep all terms of this Agreement confidential.

28. Equity Ownership. The Executive will be subject to such stock ownership guidelines and holding requirements as may be implemented by the Board from time to time.

[signature page follows]

The parties have executed this Agreement as of the date first written above.

MAGNACHIP SEMICONDUCTOR, LTD.

By: /s/ Young-Joon Kim

Name: Young-Joon Kim

Title: Representative Director

MAGNACHIP SEMICONDUCTOR CORPORATION

By: /s/ Young-Joon Kim

Name: Young-Joon Kim

Title: Chief Executive Officer

EXECUTIVE

/s/ Young Soo Woo

Young Soo Woo

EXHIBIT A
FORM OF RELEASE

As used in this Release of Claims (this "Release"), the term "claims" will include all claims, covenants, warranties, promises, undertakings, actions, suits, causes of action, proceedings, obligations, debts, accounts, attorneys' fees, judgments, losses, and liabilities, of whatsoever kind or nature, in law, in equity or otherwise. Capitalized terms used but not defined in this Release will have the meanings given to them in the Executive Service Agreement dated _____ between MagnaChip Semiconductor, Ltd. (the "Company"), MagnaChip Semiconductor Corporation, a Delaware corporation ("Parent"), and Young Soo Woo (my "Service Agreement").

For and in consideration of the payments and benefits under Section 5(b) of the Service Agreement, and other good and valuable consideration, I, for and on behalf of myself and my executors, heirs, administrators, representatives, and assigns, hereby agree to release and forever discharge the Company, Parent and all of their respective predecessors, successors, and past, current, and future parent entities, affiliates, subsidiary entities, investors, directors, shareholders, members, officers, general or limited partners, employees, attorneys, agents, and representatives, and the benefit plans in which I am or have been a participant by virtue of my engagement with or service to the Company (collectively, the "Company Releasees"), from any and all claims that I have or may have had against the Company Releasees based on any events or circumstances arising or occurring on or prior to the date hereof and arising directly or indirectly out of, relating to, or in any other way involving in any manner whatsoever my engagement with or service to the Company or the termination thereof, including any and all claims arising under national, federal, provincial, state or local laws relating to employment, including claims of wrongful discharge, breach of express or implied contract, fraud, misrepresentation, defamation, intentional infliction of emotional distress or liability in tort, and claims of any kind that may be brought in any court or administrative agency, and any related claims for attorneys' fees and costs, including claims under Title VII of the Civil Rights Act of 1964, as amended, 42 U.S.C. Section 2000, et seq.; the Americans with Disabilities Act, as amended, 42 U.S.C. § 12101 et seq.; the Rehabilitation Act of 1973, as amended, 29 U.S.C. § 701 et seq.; the Civil Rights Act of 1866, and the Civil Rights Act of 1991; 42 U.S.C. Section 1981, et seq.; the Age Discrimination in Employment Act, as amended, 29 U.S.C. Section 621, et seq. (the "ADEA"); the Equal Pay Act, as amended, 29 U.S.C. Section 206(d); regulations of the Office of Federal Contract Compliance, 41 C.F.R. Section 60, et seq.; the Family and Medical Leave Act, as amended, 29 U.S.C. § 2601 et seq.; the Fair Labor Standards Act of 1938, as amended, 29 U.S.C. § 201 et seq.; the Employee Retirement Income Security Act, as amended, 29 U.S.C. § 1001 et seq.; and any similar national, provincial, state or local laws of the United States, the Republic of Korea or any other jurisdiction. I agree further that this Release may be pleaded as a full defense to any action, suit, arbitration or other proceeding covered by the terms hereof that is or may be initiated, prosecuted, or maintained by me or my descendants, dependents, heirs, executors, administrators or assigns. By signing this Release, I acknowledge that I intend to waive and release all rights known or unknown that I may have against the Company Releasees under these and any other laws.

I acknowledge and agree that as of the date I execute this Release, I have no knowledge of any facts or circumstances that give rise or could give rise to any claims under any of the laws listed in the preceding paragraph and that I have not filed any claim against any of the Company Releasees before any local, state, federal or foreign agency, court, arbitrator, mediator, arbitration or mediation panel or other body (each individually, a "Proceeding"). I (i) acknowledge that I will not initiate or cause to be initiated on my behalf any Proceeding and will not participate in any Proceeding, in each case, except as required by law; and (ii) waive any right that I may have to benefit in any manner from any relief (whether monetary or otherwise) arising out of any Proceeding, except where otherwise provided by law, including any Proceeding conducted by the Equal Employment Opportunity Commission ("EEOC"). Further, I understand that, by executing this Release, I will be limiting the availability of certain remedies that I may have against the Company and limiting also my ability to pursue certain claims against the Company Releasees.

By executing this Release, I specifically release all claims relating to my engagement with and service to the Company, and its termination, under ADEA, a federal statute that, among other things, prohibits discrimination on the basis of age in engagement and benefit plans.

Notwithstanding the generality of the foregoing, I do not release (i) claims to receive payments and benefits under Section 5(b) of the Service Agreement in accordance with the terms of the Service Agreement, (ii) claims for indemnification arising under any applicable indemnification obligation of the Company, (iii) any vested rights I may have under any qualified benefit plans, programs or policies of the Company, or (iv) claims that cannot be waived by law. Further, nothing in this Release shall prevent me from (a) initiating or causing to be initiated on my behalf any claim against the Company before any local, state or federal agency, court or other body challenging the validity of the waiver of my claims under the ADEA (but no other portion of such waiver); or (b) initiating or participating in an investigation or proceeding conducted by the EEOC.

I understand that nothing in this Agreement will preclude, prohibit or restrict me from (i) communicating with, any federal, state or local administrative or regulatory agency or authority, including the Securities and Exchange Commission (the "SEC"); (ii) participating or cooperating in any investigation conducted by any governmental agency or authority; or (iii) filing a charge of discrimination with the EEOC or any other federal state or local administrative agency or regulatory authority.

Nothing in this Agreement, or any other agreement with the Company, prohibits or is intended in any manner to prohibit, me from (i) reporting a possible violation of federal or other applicable law or regulation to any governmental agency or entity, including the Department of Justice, the SEC, the U.S. Congress and any governmental agency Inspector General, or (ii) making other disclosures that are protected under whistleblower provisions of federal law or regulation. This Agreement does not limit my right to receive an award (including a monetary reward) for information provided to the SEC. I do not need the prior authorization of anyone at the Company to make any such reports or disclosures, and I am not required to notify the Company that I have made such reports or disclosures.

Nothing in this Agreement or any other agreement or policy of the Company is intended to interfere with or restrain the immunity provided under 18 U.S.C. §1833(b). I cannot be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that is made (i) (A) in confidence to federal, state or local government officials, directly or indirectly, or to an attorney, and (B) for the purpose of reporting or investigating a suspected violation of law; (ii) in a complaint or other document filed in a lawsuit or other proceeding, if filed under seal; or (iii) in connection with a lawsuit alleging retaliation for reporting a suspected violation of law, if filed under seal and does not disclose the trade secret, except pursuant to a court order.

I acknowledge that I have been given at least 21 days in which to consider this Release. I acknowledge further that the Company has advised me to consult with an attorney of my choice before signing this Release, and I have had sufficient time to consider the terms of this Release. I represent and acknowledge that if I execute this Release before 21 days have elapsed, I do so knowingly, voluntarily, and upon the advice and with the approval of my legal counsel (if any), and that I voluntarily waive any remaining consideration period.

I understand that after executing this Release, I have the right to revoke it within seven days after its execution. I understand that this Release will not become effective and enforceable unless the seven-day revocation period passes and I do not revoke the Release in writing. I understand that this Release may not be revoked after the seven-day revocation period has passed. I understand also that any revocation of this Release must be made in writing and delivered to the Company at its principal place of business within the seven-day period.

This Release will become effective, irrevocable, and binding on the eighth day after its execution, so long as I have not timely revoked it as set forth above. I understand and acknowledge that I will not be entitled to payments or benefits under Section 5(b) of the Service Agreement unless this Release is effective on or before the date that is 60 days following the Date of Termination (as defined in the Service Agreement).

I hereby agree to waive any and all claims to re-engagement with the Company and affirmatively agree not to seek further engagement with the Company.

The provisions of this Release will be binding upon my heirs, executors, administrators, legal representatives, and assigns. If any provision of this Release will be held by any court of competent jurisdiction to be illegal, void or unenforceable, such provision will be of no force or effect. The illegality or unenforceability of such provision, however, will have no effect upon and will not impair the enforceability of any other provision of this Release.

This Release will be governed in accordance with the laws of the State of Delaware, without reference to the principles of conflicts of law. Any dispute or claim arising out of or relating to this Release or claim of breach hereof will be brought exclusively in the United States District Court for the District of Delaware to the extent that federal jurisdiction exists, and in the Delaware Chancery Court to the extent that federal jurisdiction does not exist. By execution of this Release, I am waiving any right to trial by jury in connection with any suit, action or proceeding under or in connection with this Release.

Young Soo Woo

Date

EXECUTIVE SERVICE AGREEMENT

This Executive Service Agreement (this “Agreement”), entered into on June 1, 2020 (the “Effective Date”), is made by and between Chan Ho Park (the “Executive”), on the one hand, and MagnaChip Semiconductor Corporation, a Delaware corporation (“Parent”), and MagnaChip Semiconductor, Ltd., a wholly owned subsidiary of Parent (“MSK” and together with Parent and each of its Affiliates that may engage the Executive from time to time, including any and all successors thereto, the “Company”), on the other hand.

RECITALS

- A. The Company wishes to engage the Executive, and the Executive wishes to provide services to the Company, as further set forth herein.
- B. The Company and the Executive desire to enter into this Agreement to set forth the rights and obligations of the parties hereto.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing and of the respective covenants and agreements set forth below, the parties hereto agree as follows:

1. Certain Definitions.

(a) “Affiliate” shall mean, with respect to any Person, any other Person directly or indirectly controlling, controlled by or under common control with such Person, where “control” shall have the meaning given such term under Rule 405 of the Securities Act of 1933, as amended.

(b) “Agreement” shall have the meaning set forth in the preamble hereto.

(c) “Annual Base Salary” shall have the meaning set forth in Section 3(a). For the avoidance of doubt, none of the Annual Bonus, the Signing Bonus or the Special Bonus shall be included in, or be a part of, the Annual Base Salary.

(d) “Annual Bonus” shall have the meaning set forth in Section 3(b).

(e) “Base Salary Payment Date” shall mean the day on which the Executive receives his monthly installment of his Annual Base Salary.

(f) “Board” shall mean the Board of Directors of the Company.

(g) The Company shall have “Cause” to terminate the Executive’s engagement pursuant to Section 4(a)(iii) hereunder upon (i) the Executive’s conviction of, or a plea of *nolo contendere* to, a felony or other crime involving moral turpitude (or, in each case, equivalent crimes in a jurisdiction other than the United States), but excluding minor traffic violations; (ii) the Executive’s commission of fraud, embezzlement or misappropriation of funds; (iii) a breach by the Executive of his fiduciary duty to the Company; (iv) the Executive’s refusal to fulfill the Executive’s duties and responsibilities (other than by reason of death or Disability) to the Company; (v) the Executive’s material violation of any established lawful policy of the Company; (vi) the Executive’s material breach of any of the terms of any agreement the Executive has with the Company; (vii) the Executive’s habitual

use of illicit drugs or habitual abuse of alcohol that affects his job performance; or (viii) any gross negligence, material misconduct or material wrongful act or omission on the Executive's part in connection with the Executive's duties and responsibilities to the Company. The Company may terminate the Executive's engagement for Cause under this Agreement, following issuance to the Executive of written notice of the circumstances the Company believes constitute Cause, at any time within 90 days after it becomes aware of such circumstances; provided, however, that, if the basis for termination is curable, then the Executive shall have 15 days after receipt of such written notice to cure such basis, and if not cured, the Company may terminate the Executive's engagement for Cause at any time within 90 days after the expiration of such cure period. If, within 90 days subsequent to termination of Executive's engagement for any reason (other than by the Company for Cause), the Company determines that the Executive's engagement could have been terminated for Cause, the Executive's engagement will be deemed to have been terminated for Cause for all purposes, and the Executive will be required to disgorge to the Company all amounts received pursuant to this Agreement or otherwise on account of such termination that would not have been payable to the Executive had such termination been by the Company for Cause; provided, however, that the Company's ability to retroactively determine that the Executive's engagement could have been terminated for Cause under this sentence will cease upon the occurrence of a Change in Control.

(h) "CEO" shall mean the Chief Executive Officer of Parent.

(i) "Change in Control" has the meaning given to such term in the Equity Incentive Plan.

(j) "Code" shall mean the Internal Revenue Code of 1986, as amended.

(k) "Commencement Date" shall mean the first day on which the Executive reports to work with the Company.

(l) "Date of Termination" shall mean the effective date of termination of Executive's engagement, as set forth in Section 4.

(m) "Disability" shall mean a finding by the Company of the Executive's incapacitation through any illness, injury, accident or condition of either a physical or psychological nature that has resulted in his inability to perform the essential functions of his position, even with reasonable accommodations, for 180 calendar days during any period of 365 consecutive calendar days, and such incapacity is expected to continue.

(n) "Effective Date" shall have the meaning set forth in the preamble hereto.

(o) "Executive" shall have the meaning set forth in the preamble hereto.

(p) "Equity Awards" means the equity awards that the Executive may receive subject to the Board's approval and under the terms of the Equity Incentive Plan and standard forms of award agreements under the Equity Incentive Plan (the "Award Agreements").

(q) "Equity Incentive Plan" means, as applicable, the MagnaChip Semiconductor Corporation 2011 Equity Incentive Plan or any successor equity incentive plan of the Parent, as amended or amended and restated from time to time.

(r) “Final Base Salary” means the Executive’s Annual Base Salary as in effect immediately prior to the termination of the Executive’s engagement (or, if clause (i) or (ii) of the definition of “Good Reason” is implicated, immediately before any relevant diminution of the Executive’s Annual Base Salary).

(s) The Executive shall have “Good Reason” to resign or otherwise terminate his engagement with the Company pursuant to Section 4(a)(v) in the event that any of the following actions are taken by the Company without his consent: (i) if upon or following a Change in Control, a diminution in the Executive’s Annual Base Salary or Target Annual Bonus opportunity; (ii) if prior to a Change in Control, a diminution in (A) the Executive’s Annual Base Salary, other than an across the board cumulative reduction of no more than 15% that applies in a similar manner to all similarly-situated members of the senior management of the Company or (B) the Executive’s Target Annual Bonus opportunity (other than a reduction that occurs as a result of a reduction described in the foregoing clause (A)); (iii) the Company’s material breach of any of the material terms of any material agreement between the Executive and the Company; or (iv) a non-temporary relocation of the Executive’s primary work location by the Company to a location that is more than 35 miles from the Executive’s principal place of service as of the date hereof (which the parties acknowledge is Seoul, South Korea and/or Cheongju, South Korea) and that increases the Executive’s one-way commute to work by more than 35 miles. The Executive will not have Good Reason to terminate his engagement and receive payments or benefits under Section 5(b) unless the Executive provides the Board and the CEO with written notice of the circumstances the Executive believes constitute Good Reason within 30 days after the occurrence of such circumstances. If the Company does not cure within 15 days after receipt of such written notice, then the Executive may terminate his engagement for Good Reason at any time within 90 days after the expiration of such cure period. If the Executive terminates his engagement prior to the expiration of the 15-day cure period or more than 90 days after the expiration of the cure period, the Executive will not be treated as having terminated his engagement for Good Reason.

(t) “Inventions” shall have the meaning set forth in Section 7(c)(i).

(u) “Notice of Termination” shall have the meaning set forth in Section 4(b).

(v) “Parent” shall have the meaning set forth in the preamble hereto.

(w) “Person” shall mean an individual, partnership, corporation, limited liability company, business trust, joint stock company, trust, unincorporated association, joint venture, governmental authority or other entity of whatever nature.

(x) “Proprietary Rights” shall have the meaning set forth in Section 7(c)(i).

(y) “Restricted Stock Unit” shall have the meaning set forth in the Equity Incentive Plan.

(z) “Signing Bonus” shall have the meaning set forth in Section 3(d).

(aa) “Special Bonus” shall have the meaning set forth in Section 3(b).

(bb) “Target Annual Bonus” means the Executive’s target Annual Bonus, expressed as a percentage of the Annual Base Salary, under the terms of the Company’s cash bonus plan as is then in effect.

(cc) “Term” shall have the meaning set forth in Section 2(b).

2. Executive’s Service.

(a) In General. The Company shall engage the Executive, and the Executive shall provide services to the Company, for the period set forth in Section 2(b), in the position(s) set forth in Section 2(c), and upon the other terms and conditions herein provided.

(b) Term. The term of this Agreement (the “Term”) shall begin on the Effective Date and remain in effect, until terminated as provided in Section 4. Notwithstanding anything herein to the contrary, the Executive’s engagement with the Company shall be “at-will”, and the Executive or the Company may terminate the Executive’s engagement for any reason or no reason at any time, in either case subject to Section 4 hereunder.

(c) Position and Duties.

(i) During the Term, the Executive shall serve as General Manager of Power Solutions of MSK, with responsibilities, duties and authority customary for such position; provided, however, that the Company may alter such responsibilities, duties and authority from time to time. The Executive shall also serve as an officer of other Affiliates of the Company as requested by the Company. Except as otherwise provided herein, the Executive shall not be entitled to any additional compensation for service as a member of the Board or other positions or titles he may hold with any Affiliate of the Company to the extent he is so appointed. The Executive shall report to the CEO or any other officer of the Company as may be designated by the Board or the CEO. The Executive agrees to observe and comply with the Company’s rules and policies as adopted from time to time by the Company. The Executive shall devote his full business time, skill, attention and best efforts to the performance of his duties hereunder; provided, however, that the Executive shall be entitled to (A) serve on civic, charitable and religious boards and (B) manage the Executive’s personal and family investments, in each case, to the extent that such activities do not materially interfere with the performance of the Executive’s duties and responsibilities hereunder, are not in conflict with the business interests of the Company or its Affiliates, and do not otherwise compete with the business of the Company or its Affiliates.

(ii) The Executive shall be principally based at the Company’s offices in Seoul, South Korea or Cheongju, South Korea. The Executive shall perform his duties and responsibilities to the Company at such principal place of service and at such other location(s) to which the Company may reasonably require the Executive to travel for Company business purposes.

3. Compensation and Related Matters.

(a) Annual Base Salary. During the Term, the Executive shall receive a base salary at a rate of Three Hundred Thirty Thousand United States Dollars (USD 330,000.00) per annum, which shall be paid in accordance with the customary payroll practices of the Company (the “Annual Base Salary”).

(b) Special Bonus. During the Term, the Executive shall receive a cash bonus (the “Special Bonus”) of Eighty Thousand United States Dollars (USD 80,000.00) per annum, which shall be paid in monthly installments on each Base Salary Payment Date.

(c) Annual Bonus. With respect to each calendar year that ends during the Term, the Executive shall be eligible to receive an annual cash bonus (the “Annual Bonus”) under the terms of the Company’s cash bonus plan as is then in effect. It is currently intended that the Board will set the Executive’s target Annual Bonus at 50% of the Executive’s Annual Base Salary, which target Annual Bonus may be increased by the Board in its discretion.

(d) Signing Bonus. On the first Base Salary Payment Date, the Executive shall receive a one-time cash bonus (the “Signing Bonus”) of One Hundred Thousand United States Dollars (USD 100,000.00); provided that, prior to the first anniversary of the Commencement Date, (i) if the Executive resigns from the Company for any reason, then the Executive shall repay to the Company a prorated amount of the Signing Bonus, which prorated amount shall be calculated by multiplying the Signing Bonus by a fraction, (x) the numerator of which equals 365 minus the number of days that have elapsed between the Commencement Date and the date of Executive’s resignation and (y) the denominator of which equals 365, or (ii) if the Company terminates the Executive’s engagement for Cause, then the Executive shall repay to the Company the entire Signing Bonus. The Company may, at its option, offset the repayment of the Signing Bonus from any amounts owed by the Company to the Executive under this Agreement or otherwise.

(e) Equity Compensation. Subject to Board approval and the Executive’s continued engagement on such date, as soon as practicable after the Commencement Date, the Executive will be granted a Restricted Stock Unit award for 15,000 shares of common stock of Parent (the “RSU Award”), which grant shall be under the terms of the Equity Incentive Plan and the applicable Award Agreement. The RSU Award shall vest over three (3) years, with one-third (1/3) of the RSU Award vesting on each of the first, second and third anniversaries of the grant date, all in accordance with, and subject to the terms of, the Equity Incentive Plan. In addition, while the Executive is engaged to provide services to the Company, the Executive will be eligible to participate in the equity incentive program applicable to the Company’s executives. It is currently anticipated that the Executive will receive additional Equity Awards in each of 2021 and 2022 under the then-current Equity Incentive Plan, with the target dollar value of such awards to be in line with the target value of Equity Awards received by similarly situated executives in such year and subject to the Executive’s continued provision of his services to the Company. Such Equity Awards shall, in all case, be determined and approved by the Board in its sole discretion. Prior to receiving any Equity Award, including the RSU Award, the Executive must execute the Award Agreement(s) in the form(s) approved by the Board. Accordingly, the actual terms of any Equity Award, including the RSU Award, will be governed by the Equity Incentive Plan and the actual Award Agreement and documents evidencing the grant of such Equity Award, and not by any other terms set forth herein or otherwise.

(f) Benefits. During the Term, the Executive shall be entitled to participate in the benefit plans, programs and arrangements of the Company now (or, to the extent determined by the Board, hereafter) in effect, in accordance with their terms, including medical and welfare benefits and company automobile, all on the terms applicable to other similarly situated executives of the Company.

(g) Tax Preparation. For each calendar year during which the Executive provides services to the Company pursuant to this Agreement, the Company shall provide (or pay for) reasonable professional tax preparation services to the Executive. For the avoidances of doubt, the Company shall in no way be liable for any damages or penalties claimed or imposed by anyone against the Executive arising out of such tax preparation services, nor shall the Executive be entitled to any tax equalization.

(h) Visas and Work Permits. The Company shall provide reasonable services and cover the cost to obtain the necessary visas (or other applicable entry or residence permits) to enable the Executive to legally reside and work in Korea, and his family to legally reside in or visit Korea, for the duration that the Executive is assigned to perform services in Korea.

(i) Annual Vacation. During the Term, the Executive shall be entitled to paid-time-off (including vacation days) on an annual basis in accordance with the Company's applicable policies and practices. Under the policies applicable to other similarly situated executives of the Company, any unused paid-time-off (including vacation days) shall neither be carried over to the following year nor be compensated for. Any paid-time-off (including vacation days) shall be taken at the reasonable and mutual convenience of the Company and the Executive. For the avoidance of doubt, the Executive shall not be entitled to any home leave in addition to the paid-time-off (including vacation days).

(j) Business Expenses. During the Term, the Company shall reimburse the Executive for all reasonable travel and other business expenses incurred by him in the performance of his duties to the Company, in accordance with the Company's expense reimbursement policies and procedures.

(k) Health Insurance. During the Term, the Executive shall be eligible to participate in the Company's international health insurance coverage offered by Cigna® on the same terms applicable to other executives of the Company who are provided such coverage.

(l) No Expatriate Benefits. Except as expressly set forth in this Section 3, the Executive shall not be entitled to receive any expatriate benefits, including those that may be provided to other executives of the Company, whether under a relevant policy or otherwise.

4. Termination. The Executive's engagement hereunder may be terminated without any breach of this Agreement only under the following circumstances:

(a) Circumstances.

(i) Death. The Executive's engagement hereunder shall terminate upon his death.

(ii) Disability. If the Executive has incurred a Disability, the Company may give the Executive written notice of its intention to terminate the Executive's engagement. In that event, the Executive's engagement with the Company shall terminate effective on the later of the 30th day after receipt of such notice by the Executive and the date specified in such notice; provided, however, that, if the Executive shall have returned to full-time performance of his duties hereunder within the 30-day period following receipt of such notice and shall have reasonably demonstrated that the Executive is not subject to a Disability, then the Executive's engagement shall not be terminated pursuant to this clause (ii).

(iii) Termination with Cause. The Company may terminate the Executive's engagement with Cause.

(iv) Termination without Cause. The Company may terminate the Executive's engagement without Cause.

(v) Resignation with Good Reason. The Executive may resign from his engagement with Good Reason.

(vi) Resignation without Good Reason. The Executive may resign from his engagement without Good Reason upon not less than thirty (30) days' advance written notice to the Board and the Company's Chief Executive Officer.

(b) Notice of Termination. Any termination of the Executive's engagement with the Company, whether by the Company or the Executive under this Section 4 (other than termination pursuant to Section 4(a)(i)), shall be communicated by written notice to the other party hereto (i) indicating the specific termination provision in this Agreement relied upon, (ii) except with respect to a termination pursuant to Section 4(a)(iv) or (vi), setting forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's engagement under the provision so indicated, and (iii) specifying a Date of Termination as provided herein (a "Notice of Termination"). If the Company delivers a Notice of Termination under Section 4(a)(i), the Date of Termination shall be at least thirty (30) days following the date of such notice; provided, however, that such notice need not specify a Date of Termination, in which case the Date of Termination shall be determined pursuant to Section 4(a)(ii). If the Company delivers a Notice of Termination under Section 4(a)(iii) or 4(a)(iv), the Date of Termination shall be, in the Company's sole discretion, the date on which the Executive receives such notice or any subsequent date selected by the Company. If the Executive delivers a Notice of Termination under Section 4(a)(v) or (a)(vi), the Date of Termination shall be at least thirty (30) days following the date of such notice; provided, however, that the Company may, in its sole discretion, accelerate the Date of Termination to any date that occurs following the Company's receipt of such notice, without changing the characterization of such termination as voluntary, even if such date is prior to the date specified in such notice. The failure by the Company or the Executive to set forth in the Notice of Termination any fact or circumstance that contributes to a showing of Cause or Good Reason shall not waive any right of the Company or the Executive hereunder or preclude the Company or the Executive from asserting such fact or circumstance in enforcing the Company's or the Executive's rights hereunder.

(c) Termination and Resignation of All Positions. Upon termination of the Executive's engagement for any reason, the Executive agrees to resign, as of the Date of Termination or such other date requested by the Company, from all positions and offices that the Executive then holds with the Company and its Affiliates. In addition, as applicable, if the Executive fails to resign from any such positions or offices, the Company shall be relieved of its obligations under Section 5(b).

5. Company Obligations upon Termination of the Executive's Engagement.

(a) In General. Subject to Section 11(a), upon termination of the Executive's engagement for any reason, the Executive (or the Executive's estate) shall be entitled to receive (i) any amount of the Executive's Annual Base Salary earned through the Date of Termination not theretofore paid, (ii) any Annual Bonus for the year prior to the year in which the Date of Termination occurred that was earned but not yet paid, (iii) any expenses owed to the Executive under Section 3(f), and (iv) any vested payment or benefit arising from the Executive's participation in, or benefits under, any qualified benefit plans, programs or arrangements under Section 3(d) (other than severance plans, programs or arrangements), which amounts shall be payable in accordance with the terms and conditions of such benefit plans, programs or arrangements including, where applicable, any death and disability benefits (the "Accrued Obligations"). Notwithstanding anything herein to the contrary, upon a Termination with Cause, and only in the case of such a termination, the Accrued Obligations shall not include the amount set forth in clause (ii) of the preceding sentence or any other amounts or benefits not payable in accordance with the terms and conditions of any benefit plan, program or arrangement.

(b) Termination without Cause or Resignation with Good Reason. Subject to Section 11(a) and subject to the Executive's continued compliance with the covenants contained in Sections 6, 7 and 10, if the Company terminates the Executive's engagement without Cause pursuant to Section 4(a)(iv) or the Executive resigns from his engagement with Good Reason pursuant to Section 4(a)(v), the Company shall, in addition to the Accrued Obligations:

(i) continue to pay the Final Base Salary in accordance with the Company's customary payroll practices during the period beginning on the Date of Termination and ending on the earlier to occur of (A) six (6) months after the Date of Termination and (B) the first date that the Executive violates any covenant contained in Section 6 or 7 (the "Salary Payment"), and if the Date of Termination occurs after June 30 of the calendar year in which the Date of Termination occurs, pay the Executive a prorated portion of the Annual Bonus payable with respect to the calendar year in which such termination occurs (which prorated amount shall equal the amount of the Annual Bonus multiplied by a fraction, (x) the numerator of which equals the number of days that have elapsed between January 1 of such calendar year and the Date of Termination and (y) the denominator of which equals 365), based on actual performance achievement for such year, and payable if and when annual bonuses are paid to other senior executives of the Company with respect to such year (the "Pro Rata Bonus", together with the Salary Payment, the "Severance Payment"); provided, however, that, if the Company terminates the Executive's engagement without Cause pursuant to Section 4(a)(iv) or the Executive resigns from his engagement with Good Reason pursuant to Section 4(a)(v), in each case, either (x) during a period of time when the Company is party to a definitive corporate transaction agreement, the consummation of which would result in a Change in Control, or (y) within 18 months following a Change in Control (such a termination a "CIC Qualified Termination"), then the Severance Payment shall instead be equal to the Final Base Salary, payable over 12 months, in each case so long as the Release (as defined below) has become effective and the Executive has not violated any covenant contained in Section 6 or 7, in which case the Severance Payment shall be forfeited; and

(ii) provide for vesting of any outstanding unvested Equity Awards, as set forth in the Equity Incentive Plan and the applicable Award Agreement(s);

provided, however, that all payments and benefits to be paid or provided pursuant to this Section 5(b) shall commence on the 60th day following the Date of Termination, and, only with respect to any cash payments, the initial installment of such payments shall include a lump-sum payment of all amounts accrued under this Section 5(b) from the Date of Termination through the date of such initial payment.

Notwithstanding anything herein to the contrary, if the Executive breaches any of the covenants contained in Sections 6 and Z, the Company shall have the right to cease providing any payments or benefits under this Section 5(b) and, if requested, the Executive shall repay to the Company within 60 days of such request any previously paid payments or benefits under this Section 5(b); provided that the foregoing shall not apply unless the Company provides the Executive with written notice of the circumstances it believes constitutes a breach of such covenants within 90 days after it becomes aware of such circumstances; provided further that, if the basis for the alleged breach is curable, then the Executive shall have 15 days after receipt of such written notice to cure such basis.

Payment of the amounts and benefits under this Section 5(b) is in lieu of any other severance or separation pay payable to the Executive whether under any previous agreement, offer letter or severance program, plan or policy, applicable law (including the laws of the Republic of Korea) or other statute, or otherwise.

(c) Release. Notwithstanding anything herein to the contrary, the amounts payable and benefits to be provided to the Executive under Section 5(b), other than the Accrued Obligations, shall be contingent upon and subject to the Executive's (or the Executive's estate's, if applicable) execution and non-revocation of a general waiver and release of claims agreement generally consistent with the form attached as Exhibit A hereto (as appropriately modified to comply with applicable law, the "Release") (and the expiration of any applicable revocation period), on or prior to the 60th day following the Date of Termination.

(d) Survival. The obligations of any of the parties under this Agreement which by their nature may require either partial or total performance after the termination of the Term or this Agreement (including those under Sections 6, Z, 8, 9 and 10) will survive any termination of this Agreement.

6. Non-Competition; Non-Solicitation; Non-Hire.

(a) To the fullest extent permitted by applicable law, the Executive agrees that during the Executive's engagement with the Company, and for the 12-month period following termination of the Executive's engagement for any reason, the Executive will not, directly or indirectly, have any equity or equity-based interest, or work or otherwise provide services as an employee, contractor, officer, owner, consultant, partner, director or otherwise, in any business anywhere in the world that competes with any of the businesses of the Company. Notwithstanding the foregoing, the Executive shall be permitted to acquire a passive stock or equity interest in such a business, provided that the stock or other equity interest acquired is not more than five percent (5%) of the outstanding interest in such business. Notwithstanding anything herein to the contrary, if prior to the expiration of the aforementioned 12-month period the Executive enters into any agreement that obligates the Executive to provide any form of services to the Company, then such 12-month period shall commence on the date that the Executives ceases to provide services under such agreement.

(b) To the fullest extent permitted by applicable law, the Executive agrees that during the Executive's engagement with the Company, and for the 12-month period following termination of the Executive's engagement for any reason, the Executive will not, directly or indirectly, on the Executive's own behalf or on behalf of another (i) solicit, induce or attempt to solicit or induce any officer, director, employee or consultant of the Company to terminate their relationship with or leave the Company, or in any way interfere with the relationship between the Company, on the one hand, and any officer, director, employee or consultant thereof, on the other hand, (ii) hire (or other similar arrangement) any Person (in any capacity whether as an officer, director, employee or consultant) who is, or at any time in the 12 months preceding the Date of Termination was, an officer, director, employee or consultant of the Company or (iii) induce or attempt to induce any customer, supplier, prospect, licensee or other business relation of the Company to cease doing business with the Company, or in any way interfere with the relationship between any such customer, supplier, prospect, licensee or business relation, on the one hand, and the Company, on the other hand.

(c) In the event that the terms of this Section 6 shall be determined by any court of competent jurisdiction to be unenforceable by reason of its extending for too great a period of time or over too great a geographical area or by reason of its being too extensive in any other respect, it will be interpreted to extend only over the maximum period of time for which it may be enforceable, over the maximum geographical area as to which it may be enforceable, or to the maximum extent in all other respects as to which it may be enforceable, all as determined by such court in such action. The Executive hereby acknowledges that the terms of this Section 6 are reasonable in terms of duration, scope and area restrictions and are necessary to protect the goodwill of the Company. The Executive hereby authorizes the Company to inform any future employer or prospective employer of the existence and terms of Sections 6 and 7 without liability for interference with the Executive's employment or prospective employment.

7. Non-Disclosure of Confidential Information; Non-Disparagement; Intellectual Property.

(a) Non-Disclosure of Confidential Information; Return of Property. The Executive recognizes and acknowledges that he has access to confidential information and/or has had or will have material contact with the Company's customers, suppliers, licensees, representatives, agents, partners, licensors or business relations. The Executive agrees that during his engagement and in perpetuity thereafter, the Executive shall maintain in confidence and shall not directly, indirectly or otherwise, use, disseminate, disclose or publish, or use for the Executive's benefit or the benefit of any Person, any confidential or proprietary information or trade secrets of or relating to the Company, including information with respect to the Company's operations, processes, products, inventions, business practices, finances, principals, vendors, suppliers, customers, potential customers, marketing methods, costs, prices, contractual relationships, regulatory status, compensation paid to employees or other terms of employment, or deliver to any Person any document, record, notebook, computer program or similar repository of or containing any such confidential or proprietary information or trade secrets. Upon termination of the Executive's engagement for any reason, the Executive shall promptly deliver to the Company all correspondence, drawings, manuals, letters, notes, notebooks, reports, programs, plans, proposals, financial documents or any other documents concerning the Company's customers, business plans, marketing strategies, products or processes. The Executive may respond to a lawful and valid subpoena or other legal process but shall give the Company the earliest possible notice thereof, shall, as much in advance of the return date as possible, make available to the Company and its counsel the documents and other information sought and, if requested by the Company, shall reasonably assist such counsel in resisting or otherwise responding to such process.

(b) Non-Disparagement. The Executive shall not, at any time during his engagement and in perpetuity thereafter, directly or indirectly, knowingly disparage, criticize or otherwise make derogatory statements regarding the Company, or any of its successors, directors or officers. The foregoing shall not be violated by the Executive's truthful responses to legal process or inquiry by a governmental authority.

(c) Intellectual Property Rights.

(i) The Executive agrees that the results and proceeds of the Executive's services for the Company (including any trade secrets, products, services, processes, know-how, designs, developments, innovations, analyses, drawings, reports, techniques, formulas, methods, developmental or experimental work, improvements, discoveries, inventions, ideas, source and object codes, programs, matters of a literary, musical, dramatic or otherwise creative nature, writings and other works of authorship) resulting from services performed for the Company and any works in progress, whether or not patentable or registrable under copyright or similar statutes, that were made, developed, conceived or reduced to practice or learned by the Executive, either alone or jointly with others (collectively, "Inventions"), shall be works-made-for-hire and the Company (or, if applicable or as directed by the Company) shall be deemed the sole owner throughout the universe of any and all trade secret, patent, copyright and other intellectual property rights (collectively, "Proprietary Rights") of whatsoever nature therein, whether or not now or hereafter known, existing, contemplated, recognized or developed, with the right to use the same in perpetuity in any manner the Company determines in its sole discretion, without any further payment to the Executive whatsoever. If, for any reason, any of such results and proceeds shall not legally be a work-made-for-hire and/or there are any Proprietary Rights which do not accrue to the Company under the immediately preceding sentence, then the Executive hereby irrevocably assigns and agrees to assign any and all of the Executive's right, title and interest thereto, including any and all Proprietary Rights of whatsoever nature therein, whether or not now or hereafter known, existing, contemplated, recognized or developed, to the Company (or, if applicable or as directed by the Company), and the Company or such Affiliates shall have the right to use the same in perpetuity throughout the universe in any manner determined by the Company or such Affiliates without any further payment to the Executive whatsoever. As to any Invention that the Executive is required to assign, the Executive shall promptly and fully disclose to the Company all information known to the Executive concerning such Invention. The Executive hereby waives and quitclaims to the Company any and all claims, of any nature whatsoever, that the Executive now or may hereafter have for infringement of any Proprietary Rights assigned hereunder to the Company.

(ii) The Executive agrees that, from time to time, as may be requested by the Company and at the Company's sole cost and expense, the Executive shall do any and all things that the Company may reasonably deem useful or desirable to establish or document the Company's exclusive ownership throughout the United States of America or any other country of any and all Proprietary Rights in any such Inventions, including the execution of appropriate copyright and/or patent applications or assignments. To the extent the Executive has any Proprietary Rights in the Inventions that cannot be assigned in the manner described above, the Executive unconditionally and irrevocably waives the enforcement of such Proprietary Rights. This Section 7(c)(ii) is subject to and shall not be deemed to limit, restrict

or constitute any waiver by the Company of any Proprietary Rights of ownership to which the Company may be entitled by operation of law by virtue of the Executive's engagement with the Company. The Executive further agrees that, from time to time, as may be requested by the Company and at the Company's sole cost and expense, the Executive shall assist the Company in every proper and lawful way to obtain and from time to time enforce Proprietary Rights relating to Inventions in any and all countries. To this end, the Executive shall execute, verify and deliver such documents and perform such other acts (including appearances as a witness) as the Company may reasonably request for use in applying for, obtaining, perfecting, evidencing, sustaining and enforcing such Proprietary Rights and the assignment thereof. In addition, the Executive shall execute, verify and deliver assignments of such Proprietary Rights to the Company or its designees. The Executive's obligation to assist the Company with respect to Proprietary Rights relating to such Inventions in any and all countries shall continue beyond the termination of the Executive's engagement with the Company.

(d) Protected Disclosures.

(i) Nothing in this Agreement will preclude, prohibit or restrict the Executive from (A) communicating with, any federal, state or local administrative or regulatory agency or authority, including the Securities and Exchange Commission (the "SEC"); (B) participating or cooperating in any investigation conducted by any governmental agency or authority; or (C) filing a charge of discrimination with the United States Equal Employment Opportunity Commission or any other federal state or local administrative agency or regulatory authority.

(ii) Nothing in this Agreement, or any other agreement between the parties, prohibits or is intended in any manner to prohibit, the Executive from (A) reporting a possible violation of federal or other applicable law or regulation to any governmental agency or entity, including the Department of Justice, the SEC, the U.S. Congress and any governmental agency Inspector General, or (B) making other disclosures that are protected under whistleblower provisions of federal law or regulation. This Agreement does not limit the Executive's right to receive an award (including a monetary reward) for information provided to the SEC. The Executive does not need the prior authorization of anyone at the Company to make any such reports or disclosures, and the Executive is not required to notify the Company that the Executive has made such reports or disclosures.

(iii) Nothing in this Agreement or any other agreement or policy of the Company is intended to interfere with or restrain the immunity provided under 18 U.S.C. §1833(b). The Executive cannot be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that is made (A) (1) in confidence to federal, state or local government officials, directly or indirectly, or to an attorney, and (2) for the purpose of reporting or investigating a suspected violation of law; (B) in a complaint or other document filed in a lawsuit or other proceeding, if filed under seal; or (C) in connection with a lawsuit alleging retaliation for reporting a suspected violation of law, if filed under seal and does not disclose the trade secret, except pursuant to a court order.

(iv) The foregoing provisions regarding protected disclosures are intended to comply with all applicable laws. If any laws are adopted, amended or repealed after the execution of this Agreement, this Section 7(e) shall be deemed to be amended to reflect the same.

8. Injunctive Relief. The Executive recognizes and acknowledges that a breach of any of the covenants contained in Sections 6 and 7 will cause irreparable damage to the Company and its goodwill, the exact amount of which will be difficult or impossible to ascertain, and that the remedies at law for any such breach will be inadequate. Accordingly, the Executive agrees that in the event of a breach or threatened breach of any of the covenants contained in Sections 6 and 7, in addition to any other remedy that may be available at law or in equity, the Company will be entitled to specific performance and injunctive relief (without posting a bond). In the event of any breach or violation by the Executive of any of the covenants contained in Sections 6 and 7, the time period of such covenant with respect to the Executive shall, to the fullest extent permitted by law, be tolled until such breach or violation is resolved.

9. Indemnification. During the Executive's engagement as a director or officer (or both) of Parent, and at all times thereafter during which the Executive may be subject to liability in connection with the Executive's performance of his duties as a director or officer (or both) of Parent, the Executive shall be entitled to the protection set forth in the Indemnification Agreement between the Executive and the Company to be entered into on or about the Commencement Date, in addition to the protection of any insurance policies the Company may elect to maintain generally for the benefit of its directors and officers against all costs, charges, and expenses incurred or sustained by him in connection with any action, suit or proceeding to which he may be made a party by reason of his being or having been a director, officer or employee of the Company, as well as any rights the Executive may have under the Company's articles of incorporation and bylaws (in each case, other than any dispute, claim or controversy arising under or relating to this Agreement or otherwise arising under or relating to the Executive's engagement, equity ownership or compensation). Notwithstanding anything herein to the contrary, the Executive's rights under this Section 9 shall survive the termination or expiration of this Agreement for any reason.

10. Cooperation. The Executive agrees that, subject to the Executive's reasonable availability, during and after the Executive's engagement with the Company, and without the necessity of the Company obtaining a subpoena or court order, the Executive shall provide reasonable cooperation in connection with any suit, action or proceeding (or any appeal from any suit, action or proceeding), and any investigation and/or defense of any claims asserted against the Company Releasees (as defined in the Release), which relates to events occurring during the Executive's engagement (including furnishing relevant information and materials to the Company or its designee and/or providing testimony at depositions and at trial); provided that the Company shall reimburse the Executive for reasonable out-of-pocket expenses the Executive incurs that are associated with any such cooperation; provided further that any such cooperation occurring after the termination of the Executive's engagement shall be scheduled to the extent reasonably practicable so as not to unreasonably interfere with the Executive's business or personal affairs. Notwithstanding anything herein to the contrary, the preceding cooperation covenant shall not apply to any suit, action, proceeding, investigation, defense or claim that arises out of or relates to a dispute between the Executive and any of the Company Releasees.

11. Section 409A of the Code.

(a) General. The parties hereto acknowledge and agree that, to the extent applicable, this Agreement shall be interpreted in accordance with, and incorporate the terms and conditions required by, Section 409A of the Code and the Department of Treasury Regulations and other interpretive guidance issued thereunder, including any such regulations

or other guidance that may be issued after the Effective Date (“Section 409A”). Notwithstanding anything herein to the contrary, in the event that the Company determines that any amounts payable hereunder will be taxable currently to the Executive under Section 409A(a)(1)(A) of the Code and related Department of Treasury guidance, the Company and the Executive shall cooperate in good faith to (i) adopt such amendments to this Agreement and appropriate policies and procedures, including amendments and policies with retroactive effect, that they mutually determine to be necessary or appropriate to preserve the intended tax treatment of the benefits provided by this Agreement, to preserve the economic benefits of this Agreement, and to avoid less-favorable accounting or tax consequences for the Company, and/or (ii) take such other actions as mutually determined to be necessary or appropriate to exempt the amounts payable hereunder from Section 409A or to comply with the requirements of Section 409A and thereby avoid the application of penalty taxes thereunder; provided, however, that this Section 11(a) does not create an obligation on the part of the Company to modify this Agreement and does not guarantee that the amounts payable hereunder will not be subject to interest or penalties under Section 409A, and in no event whatsoever shall the Company be liable for any additional tax, interest or penalties that may be imposed on the Executive as a result of Section 409A or any damages for failing to comply with Section 409A.

(b) Separation from Service under Section 409A. To the extent Section 409A is applicable, notwithstanding any provision to the contrary in this Agreement: (i) no amount shall be payable pursuant to Section 5(a) or (b) unless the termination of the Executive’s engagement constitutes a “separation from service” within the meaning of Section 1.409A-1(h) of the Department of Treasury Regulations; (ii) if the Executive is deemed at the time of his separation from service to be a “specified employee” for purposes of Section 409A(a)(2)(B)(i) of the Code, to the extent that delayed commencement of any portion of the termination benefits to which the Executive is entitled under this Agreement (after taking into account all exclusions applicable to such termination benefits under Section 409A), including any portion of the additional compensation awarded pursuant to Section 5(a) or (b), is required in order to avoid a prohibited distribution under Section 409A(a)(2)(B)(i) of the Code, such portion of the Executive’s termination benefits shall not be provided to the Executive prior to the earlier of (A) the expiration of the six-month period measured from the date of the Executive’s “separation from service” with the Company (as such term is defined in the Department of Treasury Regulations issued under Section 409A) and (B) the date of the Executive’s death; provided that, upon the earlier of such dates, all payments deferred pursuant to this Section 11(b)(ii) shall be paid to the Executive in a lump sum, and any remaining payments due under this Agreement shall be paid as otherwise provided herein; (iii) the determination of whether the Executive is a “specified employee” for purposes of Section 409A(a)(2)(B)(i) of the Code as of the time of his separation from service shall be made by the Company in accordance with the terms of Section 409A of the Code and applicable guidance thereunder (including Section 1.409A-1(i) of the Department of Treasury Regulations and any successor provision thereto); (iv) for purposes of Section 409A of the Code, the Executive’s right to receive installment payments pursuant to Section 5 shall be treated as a right to receive a series of separate and distinct payments; (v) if the sixty day period following the Date of Termination ends in the calendar year following the year that includes the Date of Termination, then payment of any amount that is conditioned upon the execution of the Release and is subject to Section 409A shall not be paid until the first day of the calendar year following the year that includes the Date of Termination, regardless of when the Release is signed; and (vi) to the extent that any reimbursement of expenses or in-kind benefits constitutes “deferred compensation” under

Section 409A, such reimbursement or benefit shall be provided no later than December 31 of the year following the year in which the expense was incurred. The amount of expenses reimbursed in one year shall not affect the amount eligible for reimbursement in any subsequent year. The amount of any in-kind benefits provided in one year shall not affect the amount of in-kind benefits provided in any other year.

12. Section 280G of the Code.

(a) If there is a change of ownership or effective control or change in the ownership of a substantial portion of the assets of a corporation (within the meaning of Section 280G of the Code) and any payment or benefit (including payments and benefits pursuant to this Agreement) that the Executive would receive from the Company or otherwise ("Transaction Payment") would (i) constitute a "parachute payment" within the meaning of Section 280G of the Internal Revenue Code of 1986, and (ii) but for this sentence, be subject to the excise tax imposed by Section 4999 of the Code (the "Excise Tax"), then the Company shall cause to be determined, before any amounts of the Transaction Payment are paid to the Executive, which of the following two alternative forms of payment would result in the Executive's receipt, on an after-tax basis, of the greater amount of the Transaction Payment notwithstanding that all or some portion of the Transaction Payment may be subject to the Excise Tax: (1) payment in full of the entire amount of the Transaction Payment (a "Full Payment") or (2) payment of only a part of the Transaction Payment so that the Executive receives the largest payment possible without the imposition of the Excise Tax (a "Reduced Payment"). For purposes of determining whether to make a Full Payment or a Reduced Payment, the Company shall cause to be taken into account all applicable federal, state and local income taxes and the Excise Tax (all computed at the highest applicable marginal rate, net of the maximum reduction in federal income taxes which could be obtained from a deduction of such state and local taxes). If a Reduced Payment is made, the reduction in payments and/or benefits will occur in the following order: (1) first, reduction of cash payments, in reverse order of scheduled payment date (or if necessary, to zero), (2) then, reduction of non-cash and non-equity benefits provided to the Executive, on a pro rata basis (or if necessary, to zero), and (3) then, cancellation of the acceleration of vesting of equity award compensation in the reverse order of the date of grant of the Executive's equity awards.

(b) Unless the Executive and the Company otherwise agree in writing, any determination required under this section shall be made in writing by the Company's independent public accountants (the "Accountants"), whose determination shall be conclusive and binding upon the Executive and the Company for all purposes. For purposes of making the calculations required by this section, the Accountants may make reasonable assumptions and approximations concerning applicable taxes and may rely on reasonable, good faith interpretations concerning the application of Sections 280G and 4999 of the Code. The Accountants shall provide detailed supporting calculations to the Company and the Executive as requested by the Company or the Executive. The Executive and the Company shall furnish to the Accountants such information and documents as the Accountants may reasonably request in order to make a determination under this section. The Company shall bear all costs the Accountants may reasonably incur in connection with any calculations contemplated by this Section 12(b).

13. **Assignment and Successors.** The Company may assign its rights and obligations under this Agreement to any entity, including any successor to all or substantially all the assets of the Company, by merger or otherwise, and may assign or encumber this Agreement and its rights hereunder as security for indebtedness of the Company and its Affiliates. The Executive may not assign his rights or obligations under this Agreement to any individual or entity. This Agreement shall be binding upon and inure to the benefit of the Company and the Executive and their respective successors, assigns, personnel, legal representatives, executors, administrators, heirs, distributees, devisees and legatees, as applicable. In the event of the Executive's death following a termination of his engagement, all unpaid amounts otherwise due to the Executive (including under Section 5) shall be paid to his estate.

14. **Governing Law.** This Agreement shall be governed, construed, interpreted, and enforced in accordance with the substantive laws of the State of Delaware, without reference to the principles of conflicts of law of Delaware or any other jurisdiction, and where applicable, the laws of the United States.

15. **Validity.** The invalidity or unenforceability of any provision or provisions of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

16. **Notices.** Any notice, request, claim, demand, document, and other communication hereunder to any party hereto shall be effective upon receipt (or refusal of receipt) and shall be in writing and delivered personally or sent by telex, telecopy, email or sent by nationally recognized overnight courier or certified or registered mail, postage prepaid, to the following address (or at any other address as any party hereto shall have specified by notice in writing to the other party hereto):

(a) If to the Company, to it at its current executive offices, Attn: Chief Executive Officer.

(b) If to the Executive, at his most recent address on the payroll records of the Company.

17. **Counterparts.** This Agreement may be executed in several counterparts, each of which shall be deemed to be an original, but all of which together will constitute one and the same Agreement.

18. **Entire Agreement.** The terms of this Agreement (together with the Indemnification Agreement between Parent and the Executive, any pre-invention assignment agreements with the Company and any other agreements and instruments contemplated hereby or referred to herein) are intended by the parties hereto to be the final expression of their agreement with respect to the Executive's engagement with the Company and its Affiliates and to supersede any and all prior agreements, communications expressing the Company's offer to the Executive, severance agreements and similar agreements, plans, provisions, understandings or arrangements, whether written or oral, and all such prior agreements, plans, provisions, understandings or arrangements shall be null and void in their entirety and of no further force or effect as of the Effective Date. The parties hereto further intend that this Agreement shall constitute the complete and exclusive statement of its terms and that no extrinsic evidence whatsoever may be introduced in any judicial, administrative or other legal proceeding to vary the terms of this Agreement.

19. Amendments; Waivers. This Agreement may not be modified, amended or terminated except by an instrument in writing signed by the Executive and a duly authorized officer of the Company that expressly identifies the amended provision of this Agreement. By an instrument in writing similarly executed and similarly identifying the waived compliance, the Executive or a duly authorized officer of the Company may waive compliance by the other party or parties with any provision of this Agreement that such other party was or is obligated to comply with or perform; provided, however, that such waiver shall not operate as a waiver of, or estoppel with respect to, any other or subsequent failure to comply or perform. No failure to exercise and no delay in exercising any right, remedy or power hereunder shall preclude any other or further exercise of any other right, remedy or power provided herein or by law or in equity.

20. No Inconsistent Actions. The parties hereto shall not voluntarily undertake or fail to undertake any action or course of action inconsistent with the provisions or essential intent of this Agreement. Furthermore, it is the intent of the parties hereto to act in a fair and reasonable manner with respect to the interpretation and application of the provisions of this Agreement.

21. Construction. This Agreement shall be deemed drafted equally by both of the parties hereto. Its language shall be construed as a whole and according to its fair meaning. Any presumption or principle that the language is to be construed against any party shall not apply. The headings in this Agreement are only for convenience and are not intended to affect construction or interpretation. Any references to paragraphs, subparagraphs, sections or subsections are to those parts of this Agreement, unless the context clearly indicates to the contrary. Also, unless the context clearly indicates to the contrary: (a) the plural includes the singular, and the singular includes the plural; (b) “and” and “or” are each used both conjunctively and disjunctively; (c) “any,” “all,” “each,” or “every” means “any and all,” and “each and every”; (d) “includes” and “including” are each “without limitation”; and (e) “herein,” “hereof,” “hereunder,” and other similar compounds of the word “here” refer to the entire Agreement and not to any particular paragraph, subparagraph, section or subsection.

22. Dispute Resolution. The parties agree that any suit, action or proceeding brought by or against such party in connection with this Agreement shall be brought exclusively in the United States District Court for the District of Delaware to the extent that federal jurisdiction exists, and in the Delaware Chancery Court to the extent that federal jurisdiction does not exist. Each party expressly and irrevocably consents and submits to the jurisdiction and venue of each such court in connection with any such legal proceeding, including to enforce any settlement, order or award, and such party agrees to accept service of process by the other party or any of its agents in connection with any such proceeding. EACH PARTY HEREBY IRREVOCABLY WAIVES ALL RIGHT TO A TRIAL BY JURY IN ANY SUIT, ACTION OR OTHER PROCEEDING INSTITUTED BY OR AGAINST SUCH PARTY IN RESPECT OF ITS RIGHTS OR OBLIGATIONS HEREUNDER.

23. Enforcement. If any provision of this Agreement is held to be illegal, invalid or unenforceable under present or future laws effective during the term of this Agreement, such provision shall be fully severable, this Agreement shall be construed and enforced as if such illegal, invalid or unenforceable provision were never a part of this Agreement, and the remaining provisions of this Agreement shall remain in full force and effect and shall not be affected by the illegal, invalid or unenforceable provision or by its severance from this Agreement. Furthermore, in lieu of such illegal, invalid or unenforceable provision, there shall be added automatically as part of this Agreement a provision as similar in terms to such illegal, invalid or unenforceable provision as may be possible and be legal, valid and enforceable.

24. Withholding. The Company shall be entitled to withhold from any amounts payable under this Agreement any federal, state, local, and foreign withholding and other taxes and charges that the Company is required to withhold. The Company shall be entitled to rely on an opinion of counsel if any questions as to the amount or requirement of withholding shall arise.

25. Clawback. To the extent required by applicable law (including Section 304 of the Sarbanes-Oxley Act and Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act) and/or the rules and regulations of any securities exchange or inter-dealer quotation service on which equity of the Company or Parent is listed or quoted, or if so required pursuant to a written policy adopted by the Company or Parent, payments under this Agreement or in respect of Company or Parent equity incentive awards shall be subject (including on a retroactive basis) to clawback, forfeiture or similar requirements (and such requirements shall be deemed incorporated by reference into this Agreement and all agreements governing the terms of Company or Parent incentive equity compensation).

26. Other Benefit Plans. No payment under this Agreement shall be taken into account in determining any benefits under any pension, retirement, profit sharing, group insurance or other benefit plan of the Company except as expressly required otherwise by law or the terms of such plan.

27. Representations. The Executive represents, warrants and covenants that (i) that he has read and understands this Agreement, is fully aware of its legal effect, has not acted in reliance upon any representations or promises made by the Company other than those contained in writing herein, and has entered into this Agreement freely based on his own judgment, (ii) Executive has the full right, authority and capacity to enter into this Agreement and perform Executive's obligations hereunder, (iii) Executive is not bound by any agreement that conflicts with or prevents or restricts the full performance of Executive's duties and obligations to the Company hereunder during or after the Term, (iv) the execution and delivery of this Agreement shall not result in any breach or violation of, or a default under, any existing obligation, commitment or agreement to which Executive is subject, and (v) the Executive shall keep all terms of this Agreement confidential, except with respect to disclosure to the Executive's spouse, accountants or attorneys, each of whom shall agree to keep all terms of this Agreement confidential.

28. Equity Ownership. The Executive will be subject to such stock ownership guidelines and holding requirements as may be implemented by the Board from time to time.

[signature page follows]

The parties have executed this Agreement as of the date first written above.

MAGNACHIP SEMICONDUCTOR, LTD.

By: /s/ Young-Joon Kim

Name: Young-Joon Kim

Title: Representative Director

MAGNACHIP SEMICONDUCTOR CORPORATION

By: /s/ Young-Joon Kim

Name: Young-Joon Kim

Title: Chief Executive Officer

EXECUTIVE

/s/ Chan Ho Park

Chan Ho Park

[Redacted]

EXHIBIT A
FORM OF RELEASE

As used in this Release of Claims (this "Release"), the term "claims" will include all claims, covenants, warranties, promises, undertakings, actions, suits, causes of action, proceedings, obligations, debts, accounts, attorneys' fees, judgments, losses, and liabilities, of whatsoever kind or nature, in law, in equity or otherwise. Capitalized terms used but not defined in this Release will have the meanings given to them in the Executive Service Agreement dated _____ between MagnaChip Semiconductor, Ltd. (the "Company"), MagnaChip Semiconductor Corporation, a Delaware corporation ("Parent"), and Chan Ho Park (my "Service Agreement").

For and in consideration of the payments and benefits under Section 5(b) of the Service Agreement, and other good and valuable consideration, I, for and on behalf of myself and my executors, heirs, administrators, representatives, and assigns, hereby agree to release and forever discharge the Company, Parent and all of their respective predecessors, successors, and past, current, and future parent entities, affiliates, subsidiary entities, investors, directors, shareholders, members, officers, general or limited partners, employees, attorneys, agents, and representatives, and the benefit plans in which I am or have been a participant by virtue of my engagement with or service to the Company (collectively, the "Company Releasees"), from any and all claims that I have or may have had against the Company Releasees based on any events or circumstances arising or occurring on or prior to the date hereof and arising directly or indirectly out of, relating to, or in any other way involving in any manner whatsoever my engagement with or service to the Company or the termination thereof, including any and all claims arising under national, federal, provincial, state or local laws relating to employment, including claims of wrongful discharge, breach of express or implied contract, fraud, misrepresentation, defamation, intentional infliction of emotional distress or liability in tort, and claims of any kind that may be brought in any court or administrative agency, and any related claims for attorneys' fees and costs, including claims under Title VII of the Civil Rights Act of 1964, as amended, 42 U.S.C. Section 2000, et seq.; the Americans with Disabilities Act, as amended, 42 U.S.C. § 12101 et seq.; the Rehabilitation Act of 1973, as amended, 29 U.S.C. § 701 et seq.; the Civil Rights Act of 1866, and the Civil Rights Act of 1991; 42 U.S.C. Section 1981, et seq.; the Age Discrimination in Employment Act, as amended, 29 U.S.C. Section 621, et seq. (the "ADEA"); the Equal Pay Act, as amended, 29 U.S.C. Section 206(d); regulations of the Office of Federal Contract Compliance, 41 C.F.R. Section 60, et seq.; the Family and Medical Leave Act, as amended, 29 U.S.C. § 2601 et seq.; the Fair Labor Standards Act of 1938, as amended, 29 U.S.C. § 201 et seq.; the Employee Retirement Income Security Act, as amended, 29 U.S.C. § 1001 et seq.; and any similar national, provincial, state or local laws of the United States, the Republic of Korea or any other jurisdiction. I agree further that this Release may be pleaded as a full defense to any action, suit, arbitration or other proceeding covered by the terms hereof that is or may be initiated, prosecuted, or maintained by me or my descendants, dependents, heirs, executors, administrators or assigns. By signing this Release, I acknowledge that I intend to waive and release all rights known or unknown that I may have against the Company Releasees under these and any other laws.

I acknowledge and agree that as of the date I execute this Release, I have no knowledge of any facts or circumstances that give rise or could give rise to any claims under any of the laws listed in the preceding paragraph and that I have not filed any claim against any of the Company Releasees before any local, state, federal or foreign agency, court, arbitrator, mediator, arbitration or mediation panel or other body (each individually, a "Proceeding"). I (i) acknowledge that I will not initiate or cause to be initiated on my behalf any Proceeding and will not participate in any Proceeding, in each case, except as required by law; and (ii) waive any right that I may have to benefit in any manner from any relief (whether monetary or otherwise) arising out of any Proceeding, except where otherwise provided by law, including any Proceeding conducted by the Equal Employment Opportunity Commission ("EEOC"). Further, I understand that, by executing this Release, I will be limiting the availability of certain remedies that I may have against the Company and limiting also my ability to pursue certain claims against the Company Releasees.

By executing this Release, I specifically release all claims relating to my engagement with and service to the Company, and its termination, under ADEA, a federal statute that, among other things, prohibits discrimination on the basis of age in engagement and benefit plans.

Notwithstanding the generality of the foregoing, I do not release (i) claims to receive payments and benefits under Section 5(b) of the Service Agreement in accordance with the terms of the Service Agreement, (ii) claims for indemnification arising under any applicable indemnification obligation of the Company, (iii) any vested rights I may have under any qualified benefit plans, programs or policies of the Company, or (iv) claims that cannot be waived by law. Further, nothing in this Release shall prevent me from (a) initiating or causing to be initiated on my behalf any claim against the Company before any local, state or federal agency, court or other body challenging the validity of the waiver of my claims under the ADEA (but no other portion of such waiver); or (b) initiating or participating in an investigation or proceeding conducted by the EEOC.

I understand that nothing in this Agreement will preclude, prohibit or restrict me from (i) communicating with, any federal, state or local administrative or regulatory agency or authority, including the Securities and Exchange Commission (the "SEC"); (ii) participating or cooperating in any investigation conducted by any governmental agency or authority; or (iii) filing a charge of discrimination with the EEOC or any other federal state or local administrative agency or regulatory authority.

Nothing in this Agreement, or any other agreement with the Company, prohibits or is intended in any manner to prohibit, me from (i) reporting a possible violation of federal or other applicable law or regulation to any governmental agency or entity, including the Department of Justice, the SEC, the U.S. Congress and any governmental agency Inspector General, or (ii) making other disclosures that are protected under whistleblower provisions of federal law or regulation. This Agreement does not limit my right to receive an award (including a monetary reward) for information provided to the SEC. I do not need the prior authorization of anyone at the Company to make any such reports or disclosures, and I am not required to notify the Company that I have made such reports or disclosures.

Nothing in this Agreement or any other agreement or policy of the Company is intended to interfere with or restrain the immunity provided under 18 U.S.C. §1833(b). I cannot be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that is made (i) (A) in confidence to federal, state or local government officials, directly or indirectly, or to an attorney, and (B) for the purpose of reporting or investigating a suspected violation of law; (ii) in a complaint or other document filed in a lawsuit or other proceeding, if filed under seal; or (iii) in connection with a lawsuit alleging retaliation for reporting a suspected violation of law, if filed under seal and does not disclose the trade secret, except pursuant to a court order.

I acknowledge that I have been given at least 21 days in which to consider this Release. I acknowledge further that the Company has advised me to consult with an attorney of my choice before signing this Release, and I have had sufficient time to consider the terms of this Release. I represent and acknowledge that if I execute this Release before 21 days have elapsed, I do so knowingly, voluntarily, and upon the advice and with the approval of my legal counsel (if any), and that I voluntarily waive any remaining consideration period.

I understand that after executing this Release, I have the right to revoke it within seven days after its execution. I understand that this Release will not become effective and enforceable unless the seven-day revocation period passes and I do not revoke the Release in writing. I understand that this Release may not be revoked after the seven-day revocation period has passed. I understand also that any revocation of this Release must be made in writing and delivered to the Company at its principal place of business within the seven-day period.

This Release will become effective, irrevocable, and binding on the eighth day after its execution, so long as I have not timely revoked it as set forth above. I understand and acknowledge that I will not be entitled to payments or benefits under Section 5(b) of the Service_Agreement unless this Release is effective on or before the date that is 60 days following the Date of Termination (as defined in the Service Agreement).

I hereby agree to waive any and all claims to re-engagement with the Company and affirmatively agree not to seek further engagement with the Company.

The provisions of this Release will be binding upon my heirs, executors, administrators, legal representatives, and assigns. If any provision of this Release will be held by any court of competent jurisdiction to be illegal, void or unenforceable, such provision will be of no force or effect. The illegality or unenforceability of such provision, however, will have no effect upon and will not impair the enforceability of any other provision of this Release.

This Release will be governed in accordance with the laws of the State of Delaware, without reference to the principles of conflicts of law. Any dispute or claim arising out of or relating to this Release or claim of breach hereof will be brought exclusively in the United States District Court for the District of Delaware to the extent that federal jurisdiction exists, and in the Delaware Chancery Court to the extent that federal jurisdiction does not exist. By execution of this Release, I am waiving any right to trial by jury in connection with any suit, action or proceeding under or in connection with this Release.

Chan Ho Park

Date

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO
SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, Young-Joon Kim, certify that:

1. I have reviewed this quarterly report on Form 10-Q of MagnaChip Semiconductor Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 7, 2020

/s/ Young-Joon Kim

Young-Joon Kim

Chief Executive Officer

(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO
SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, Young Soo Woo, certify that:

1. I have reviewed this quarterly report on Form 10-Q of MagnaChip Semiconductor Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 7, 2020

/s/ Young Soo Woo

Young Soo Woo

Chief Financial Officer

(Principal Financial Officer)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of MagnaChip Semiconductor Corporation (the “**Company**”) hereby certifies, to such officer’s knowledge, that:

(i) the Quarterly Report on Form 10-Q of the Company for the quarterly period ended June 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “**Report**”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

Dated: August 7, 2020

/s/ Young-Joon Kim

Young-Joon Kim

Chief Executive Officer

(Principal Executive Officer)

The foregoing certification is being furnished solely pursuant to 18 U.S.C § 1350 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or incorporated by reference in any registration statement of the Company filed under the Securities Act of 1933, as amended.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of MagnaChip Semiconductor Corporation (the “**Company**”) hereby certifies, to such officer’s knowledge, that:

(i) the Quarterly Report on Form 10-Q of the Company for the quarterly period ended June 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “**Report**”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

Dated: August 7, 2020

/s/ Young Soo Woo

Young Soo Woo

Chief Financial Officer

(Principal Financial Officer)

The foregoing certification is being furnished solely pursuant to 18 U.S.C § 1350 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or incorporated by reference in any registration statement of the Company filed under the Securities Act of 1933, as amended.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.