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

FORM 10-Q

(Mark one)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 30, 2008

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 333-126019-09

MAGNACHIP SEMICONDUCTOR LLC

(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.
74, rue de Merl, B.P. 709, L-2017
Luxembourg, Grand Duchy of Luxembourg
(Address of principal executive offices)

Not Applicable
(Zip Code)

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

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 is a large accelerated filer, an accelerated filer, a non accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a
smaller reporting company)

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 March 31, 2008, the registrant had 52,919,107.7970 of the registrant's common units outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MagnaChip Semiconductor LLC and Subsidiaries
Condensed Consolidated Statements of Operations
(Unaudited; in thousands of US dollars, except unit data)

	Three months ended	
	March 30, 2008	April 1, 2007
Net sales	\$ 203,052	\$ 151,783
Cost of sales	155,186	136,860
Gross profit	47,866	14,923
Selling, general and administrative expenses	19,224	22,729
Research and development expenses	36,347	35,118
Restructuring and impairment charges	(875)	—
Operating loss	(6,830)	(42,924)
Other income (expenses)		
Interest expense, net	(15,695)	(14,416)
Foreign currency gain (loss), net	(42,864)	(7,391)
Loss before income taxes	(65,389)	(64,731)
Income tax expenses	2,508	2,251
Net loss	\$ (67,897)	\$ (66,982)
Dividends accrued on preferred units	3,118	2,870
Net loss attributable to common units	\$ (71,015)	\$ (69,852)
Net loss per common units—Basic and diluted	\$ (1.35)	\$ (1.32)
Weighted average number of units—Basic and diluted	52,579,237	52,720,784

The accompanying notes are an integral part of these financial statements

MagnaChip Semiconductor LLC and Subsidiaries
Condensed Consolidated Balance Sheets
(Unaudited; in thousands of US dollars, except unit data)

	March 30, 2008	December 31, 2007
Assets		
Current assets		
Cash and cash equivalents	\$ 53,476	\$ 64,345
Accounts receivable, net	147,275	123,789
Inventories, net	64,925	75,867
Other receivables	4,998	5,771
Other current assets	19,798	10,951
Total current assets	<u>290,472</u>	<u>280,723</u>
Property, plant and equipment, net	260,978	279,669
Intangible assets, net	92,522	104,725
Other non-current assets	49,971	42,766
Total assets	<u>\$ 693,943</u>	<u>\$ 707,883</u>
Liabilities and Unitholders' Equity		
Current liabilities		
Accounts payable	\$ 114,433	\$ 89,977
Other accounts payable	28,959	30,661
Accrued expenses	23,929	18,100
Short-term borrowings	80,000	80,000
Other current liabilities	4,995	6,377
Total current liabilities	<u>252,316</u>	<u>225,115</u>
Long-term borrowings	750,000	750,000
Accrued severance benefits, net	72,100	74,176
Other non-current liabilities	14,894	6,666
Total liabilities	<u>1,089,310</u>	<u>1,055,957</u>
Commitments and contingencies		
Series A redeemable convertible preferred units; \$1,000 par value; 60,000 units authorized, 50,091 units issued and 0 unit outstanding at March 30, 2008 and December 31, 2007	—	—
Series B redeemable convertible preferred units; \$1,000 par value; 550,000 units authorized, 450,692 units issued and 93,997 units outstanding at March 30, 2008 and December 31, 2007	132,523	129,405
Total redeemable convertible preferred units	<u>132,523</u>	<u>129,405</u>
Unitholders' equity		
Common units; \$1 par value; 65,000,000 units authorized, 52,847,472 and 52,844,222 units issued and outstanding at March 30, 2008 and December 31, 2007	52,847	52,844
Additional paid-in capital	3,135	3,077
Accumulated deficit	(635,464)	(564,449)
Accumulated other comprehensive income	51,592	31,049
Total unitholders' equity	<u>(527,890)</u>	<u>(477,479)</u>
Total liabilities, redeemable convertible preferred units and unitholders' equity	<u>\$ 693,943</u>	<u>\$ 707,883</u>

The accompanying notes are an integral part of these financial statements

MagnaChip Semiconductor LLC and Subsidiaries
Condensed Consolidated Statements of Changes in Unitholders' Equity
(Unaudited; in thousands of US dollars, except unit data)

	Common Units		Additional Paid-In Capital	Accumulated deficit	Accumulated Other Comprehensive Income	Total
	Units	Amount				
Three months ended March 30, 2008						
Balance at January 1, 2008	52,844,222	\$52,844	\$ 3,077	\$ (564,449)	\$ 31,049	\$(477,479)
Exercise of unit options	13,813	14	14	—	—	28
Repurchase of common units	(10,563)	(11)	(57)	—	—	(68)
Unit-based compensation	—	—	101	—	—	101
Dividends accrued on preferred units	—	—	—	(3,118)	—	(3,118)
Comprehensive income (loss):						
Net loss	—	—	—	(67,897)	—	(67,897)
Fair valuation of derivatives	—	—	—	—	(1,643)	(1,643)
Foreign currency translation adjustments	—	—	—	—	22,186	22,186
Total comprehensive loss						(47,354)
Balance at March 30, 2008	<u>52,847,472</u>	<u>\$52,847</u>	<u>\$ 3,135</u>	<u>\$ (635,464)</u>	<u>\$ 51,592</u>	<u>\$(527,890)</u>
Three months ended April 1, 2007						
Balance at January 1, 2007	52,720,784	\$52,721	\$ 2,451	\$ (370,314)	\$ 30,601	\$(284,541)
Cumulative impact from adoption of FASB Interpretation ("FIN") No 48, <i>Accounting for Uncertainty in Income Taxes—an interpretation of SFAS No. 109</i>	—	—	—	(1,554)	—	(1,554)
Unit-based compensation	—	—	25	—	—	25
Dividends accrued on preferred units	—	—	—	(2,870)	—	(2,870)
Comprehensive income (loss):						
Net loss	—	—	—	(66,982)	—	(66,982)
Fair valuation of derivatives	—	—	—	—	(917)	(917)
Foreign currency translation adjustments	—	—	—	—	1,854	1,854
Total comprehensive loss						(66,045)
Balance at April 1, 2007	<u>52,720,784</u>	<u>\$52,721</u>	<u>\$ 2,476</u>	<u>\$ (441,720)</u>	<u>\$ 31,538</u>	<u>\$(354,985)</u>

The accompanying notes are an integral part of these financial statements

MagnaChip Semiconductor LLC and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Unaudited; in thousands of US dollars)

	Three months ended	
	March 30, 2008	April 1, 2007
Cash flows from operating activities		
Net loss	\$(67,897)	\$(66,982)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	21,277	43,942
Provision for severance benefits	3,734	4,182
Amortization of debt issuance costs	992	963
Loss on foreign currency translation, net	43,276	7,849
Gain on disposal of property, plant and equipment, net	(3,580)	—
Other	184	(90)
Changes in operating assets and liabilities		
Accounts receivable	(25,313)	(4,709)
Inventories	7,072	(12,183)
Other receivables	605	42
Deferred tax assets	394	—
Accounts payable	18,001	2,610
Other accounts payable	(1,912)	(5,606)
Accrued expenses	6,563	11,410
Other current assets	(3,706)	602
Other current liabilities	(1,594)	109
Payment of severance benefits	(1,612)	(2,964)
Other	10	627
Net cash used in operating activities	<u>(3,506)</u>	<u>(20,198)</u>
Cash flows from investing activities		
Purchase of plant, property and equipment	(9,633)	(7,821)
Payments for intellectual property registration	(437)	(527)
Proceeds from disposal of plant, property and equipment	3,581	9
Other	(208)	(547)
Net cash used in investing activities	<u>(6,697)</u>	<u>(8,886)</u>
Cash flows from financing activities		
Exercise of unit options	28	—
Repurchase of common units	(68)	—
Proceeds from short-term borrowings	90,000	—
Repayment of short-term borrowings	(90,000)	—
Net cash used in financing activities	<u>(40)</u>	<u>—</u>
Effect of exchange rates on cash and cash equivalents	(626)	(825)
Net decrease in cash and cash equivalents	<u>(10,869)</u>	<u>(29,909)</u>
Cash and cash equivalents		
Beginning of the period	64,345	89,173
End of the period	<u>\$ 53,476</u>	<u>\$ 59,264</u>

The accompanying notes are an integral part of these financial statements

MagnaChip Semiconductor LLC and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited; tabular dollars in thousands, except unit data)

1. Significant Accounting Policies

Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements of MagnaChip Semiconductor LLC and its subsidiaries (the “Company”) have been prepared in accordance with Accounting Principle Board (“APB”) Opinion No. 28, *Interim Financial Reporting* regarding interim financial information and, accordingly, do not include all of the information and note disclosures required by generally accepted accounting principles in the United States of America for complete financial statements. In the opinion of the Company’s management, the unaudited interim condensed consolidated financial statements include all normal recurring adjustments necessary to fairly present the information required to be set forth therein. All inter-company accounts and transactions have been eliminated. The results of operations for the three-month period ended March 30, 2008 are not necessarily indicative of the results to be expected for a full year or for any other periods.

The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America.

Recent accounting pronouncements

In December 2007, the Financial Accounting Standards Board (“FASB”) issued Statements of Financial Accounting Standards (“SFAS”) No. 141 (revised 2007), *Business Combinations* (“SFAS 141R”), which replaces FASB Statement No. 141. SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non controlling interest in the acquiree and the goodwill acquired. This Statement also establishes disclosure requirements which will enable users to evaluate the nature and financial effects of the business combination. SFAS 141R is effective as of the beginning of an entity’s fiscal year that begins after December 15, 2008. The Company is currently evaluating the potential impact, if any, of the adoption of SFAS 141R on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statement—amendments of ARB No. 51* (“SFAS 160”). SFAS 160 states that accounting and reporting for minority interests will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS 160 also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS 160 applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary. This Statement is effective as of the beginning of an entity’s first fiscal year beginning after December 15, 2008. The Company is currently evaluating the potential impact, if any, of the adoption of SFAS 160 on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment of FASB Statement No. 115* (“SFAS 159”), which permits all entities to choose to measure many financial instruments and certain other items at fair value and consequently report unrealized gains and losses on these items in earnings. SFAS 159 was effective for the Company’s fiscal year beginning January 1, 2008. The Company has not elected to adopt SFAS 159.

MagnaChip Semiconductor LLC and Subsidiaries
Notes to Condensed Consolidated Financial Statements – (Continued)
(Unaudited; tabular dollars in thousands, except unit data)

The Company adopted the provisions of SFAS No. 157, “*Fair Value Measurements*” (“FAS 157”) on January 1, 2008. SFAS 157 defines fair value, establishes a market-based framework or hierarchy for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 is applicable whenever another accounting pronouncement requires or permits assets and liabilities to be measured at fair value. SFAS 157 does not expand or require any new fair value measures, however the application of this statement may change current practice. In February 2008, the FASB decided that an entity need not apply this standard to nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis until 2009. Accordingly, the Company’s adoption of this standard in 2008 was limited to financial assets and liabilities, which primarily affects the valuation of its derivative contract. The adoption of SFAS 157 did not have a material effect on the Company’s financial condition or results of operations. The Company is still in the process of evaluating this standard with respect to its effect on nonfinancial assets and liabilities and therefore has not yet determined the impact that it will have on its consolidated financial statements upon full adoption in 2009. Nonfinancial assets and liabilities for which the Company has not applied the provisions of SFAS 157 include those measured at fair value in impairment testing and those initially measured at fair value in a business combination.

MagnaChip Semiconductor LLC and Subsidiaries
Notes to Condensed Consolidated Financial Statements – (Continued)
(Unaudited; tabular dollars in thousands, except unit data)

2. Inventories

Inventories as of March 30, 2008 and December 31, 2007 consist of the following:

	<u>March 30, 2008</u>	<u>December 31, 2007</u>
Finished goods	\$ 16,026	\$ 19,557
Semi-finished goods and work-in-process	52,717	56,877
Raw materials	7,308	7,498
Materials in-transit	470	555
Less: valuation allowances	(11,596)	(8,620)
Inventories, net	<u>\$ 64,925</u>	<u>\$ 75,867</u>

3. Property, Plant and Equipment

Property, plant and equipment as of March 30, 2008 and December 31, 2007 comprise the following:

	<u>March 30, 2008</u>	<u>December 31, 2007</u>
Buildings and related structures	\$ 142,342	\$ 150,951
Machinery and equipment	409,826	429,259
Vehicles and others	54,575	54,556
	606,743	634,766
Less: accumulated depreciation	(357,510)	(367,501)
Land	11,697	12,404
Construction in-progress	48	—
Property, plant and equipment, net	<u>\$ 260,978</u>	<u>\$ 279,669</u>

4. Intangible Assets

Intangible assets as of March 30, 2008 and December 31, 2007 are as follows:

	<u>March 30, 2008</u>	<u>December 31, 2007</u>
Technology	\$ 19,951	\$ 21,157
Customer relationships	161,832	169,300
Goodwill	14,245	14,245
Intellectual property assets	9,146	9,320
Less: accumulated amortization	(112,652)	(109,297)
Intangible assets, net	<u>\$ 92,522</u>	<u>\$ 104,725</u>

Goodwill has resulted from the acquisition of ISRON Corporation on March 6, 2005. On an ongoing basis, the Company evaluates goodwill at the reporting unit level for indications of potential impairment. Goodwill is tested for impairment based on the present value of discounted cash flows, and, if impaired, written down to fair value based on discounted cash flows. The Company performs its annual goodwill impairment test during the first quarter of each fiscal year, as well as any additional impairment test required on an event-driven basis. In the first quarter of each of fiscal 2008 and 2007, the Company performed its annual goodwill impairment test and determined that goodwill was not impaired.

MagnaChip Semiconductor LLC and Subsidiaries
Notes to Condensed Consolidated Financial Statements – (Continued)
(Unaudited; tabular dollars in thousands, except unit data)

5. Short-term borrowings

On December 23, 2004, the Company and its subsidiaries, including MagnaChip Semiconductor S.A. and MagnaChip Semiconductor Finance Company, as borrowers, entered into a senior credit agreement with a syndicate of banks, financial institutions and other entities providing for a \$100 million senior secured revolving credit facility. Interest is charged at current rates when drawn upon.

Presently, borrowings under the credit agreement bear interest equal to the 3-month London Inter-bank Offering Rate (“LIBOR”) plus 4.75% or Alternate Base Rate (“ABR”) plus 3.75%. Additionally, the Company is required to pay the administrative agent for the account of each lender a commitment fee equal to 0.5% on the average daily unused amount of the commitment of each lender during the period from December 23, 2004 to but excluding the date on which such commitments terminate. As of March 30, 2008 and December 31, 2007, the Company had borrowed \$80 million under this credit agreement.

Borrowings under the senior secured credit facility are subject to significant conditions, including compliance with financial ratios and other covenants and obligations.

Short-term borrowings as of March 30, 2008 and December 31, 2007 are presented as below:

	<u>Maturity</u>	<u>Annual interest rate (%)</u>	<u>Amount of principal</u>	
			<u>March 30, 2008</u>	<u>December 31, 2007</u>
Euro dollar Revolving Loan	2008-04- 28	3 month LIBOR + 4.75	\$ 45,000	\$ 30,000
ABR Revolving Loan	2008-03- 31 ~ 2008-04-15	ABR + 3.75	35,000	50,000
			<u>\$ 80,000</u>	<u>\$ 80,000</u>

MagnaChip Semiconductor LLC and Subsidiaries
Notes to Condensed Consolidated Financial Statements – (Continued)
(Unaudited; tabular dollars in thousands, except unit data)

6. Long-term Borrowings

On December 23, 2004, two of the Company's subsidiaries, MagnaChip Semiconductor S.A. and MagnaChip Semiconductor Finance Company issued \$500 million aggregate principal amount of Second Priority Senior Secured Notes consisting of \$300 million aggregate principal amount of Floating Rate Second Priority Senior Secured Notes and \$200 million aggregate principal amount of 6 ⁷/₈% Second Priority Senior Secured Notes. At the same time, such subsidiaries issued \$250 million aggregate principal amount of 8% Senior Subordinated Notes.

Details of long-term borrowings as of March 30, 2008 and December 31, 2007 are presented as below:

	<u>Maturity</u>	<u>Annual interest rate (%)</u>	<u>Amount of principal</u>
Floating Rate Second Priority Senior Secured Notes	2011	3 month LIBOR + 3.250	\$ 300,000
6 ⁷ / ₈ % Second Priority Senior Secured Notes	2011	6.875	200,000
8% Senior Subordinated Notes	2014	8.000	250,000
			<u>\$ 750,000</u>

The senior secured revolving credit facility and Second Priority Senior Secured Notes are collateralized by substantially all of the assets of the Company. The notes are due in full upon maturity.

Each indenture governing the notes contains covenants that limit the ability of the Company and its subsidiaries to (i) incur additional indebtedness, (ii) pay dividends or make other distributions on its capital stock or repurchase, repay or redeem its capital stock, (iii) make certain investments, (iv) incur liens, (v) enter into certain types of transactions with affiliates, (vi) create restrictions on the payment of dividends or other amounts to the Company by its subsidiaries, and (vii) sell all or substantially all of its assets or merge with or into other companies.

As of March 30, 2008, the Company and all of its subsidiaries except for MagnaChip Semiconductor (Shanghai) Company Limited have jointly and severally guaranteed each series of the Second Priority Senior Secured Notes on a second priority senior secured basis. As of March 30, 2008, the Company and all of its subsidiaries except for MagnaChip Semiconductor Ltd. (Korea) and MagnaChip Semiconductor (Shanghai) Company Limited have jointly and severally guaranteed the Senior Subordinated Notes on an unsecured, senior subordinated basis. In addition, the Company and each of its current and future direct and indirect subsidiaries (subject to certain exceptions) will be guarantors of the Second Priority Senior Secured Notes and Senior Subordinated Notes.

MagnaChip Semiconductor LLC and Subsidiaries
Notes to Condensed Consolidated Financial Statements – (Continued)
(Unaudited; tabular dollars in thousands, except unit data)

Interest Rate Swap

Effective June 27, 2005, the Company entered into an interest rate swap agreement (the “Swap”) to hedge the effect of the volatility of the 3-month London Inter-Bank Offering Rate (“LIBOR”) resulting from the Company’s \$300 million of Floating Rate Second Priority Senior Secured Notes (the “Notes”). Under the terms of the Swap, the Company receives a variable interest rate equal to the three-month LIBOR rate plus 3.25%. In exchange, the Company pays interest at a fixed rate of 7.34%. The Swap effectively replaces the variable interest rate on the notes with a fixed interest rate through the expiration date of the Swap on June 15, 2008.

The Swap qualifies as a cash flow hedge under SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities”, as amended, since at both the inception of the hedge 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 hedge. The Company is utilizing the “hypothetical derivative method” to measure the effectiveness by comparing the changes in value of the actual derivative versus the change in fair value of the “hypothetical derivative.” Under this methodology, the actual swap was effective when compared to the hypothetical hedge, and there was no hedge ineffectiveness for the quarters ended March 30, 2008 and April 1, 2007.

The Company adopted SFAS 157 on January 1, 2008, which among other things, requires enhanced disclosures about assets and liabilities measured at fair value. The adoption of SFAS 157 was limited to financial assets and liabilities, which primarily relate to its derivative contract.

The fair value framework requires the categorization of assets and liabilities into three levels based upon the assumptions (inputs) used to price the assets or liabilities. Level 1 provides the most reliable measure of fair value, whereas Level 3 generally requires significant management judgment. The three levels are defined as follows:

- Level 1: Unadjusted quoted prices in active markets for identical assets and liabilities.
- Level 2: Observable inputs other than those included in Level 1. For example, quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets or liabilities in inactive markets.
- Level 3: Unobservable inputs reflecting management’s own assumptions about the inputs used in pricing the asset or liability.

The following table represents the Company’s liabilities measured at fair value based on the LIBOR index on a recurring basis as of March 30, 2008 and the basis for that measurement:

	Total Fair Value Measurement March 30, 2008	Quoted Prices in Active Markets for Identical Asset (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivative liabilities	\$ 951	\$ —	\$ 951	\$ —

The resulting \$951 thousand of derivative liability and \$992 thousand of derivative asset were recorded as current liabilities as of March 30, 2008 and current assets as of December 31, 2007, respectively, in the accompanying condensed consolidated financial statements. The Company recorded decreases in the fair value of \$1,643 thousand and \$917 thousand in the fair value of the swap under other comprehensive income in the accompanying condensed consolidated financial statements for the quarter ended March 30, 2008 and April 1, 2007, respectively.

MagnaChip Semiconductor LLC and Subsidiaries
Notes to Condensed Consolidated Financial Statements – (Continued)
(Unaudited; tabular dollars in thousands, except unit data)

7. Accrued Severance Benefits

The majority of accrued severance benefits is for employees in the Company's Korean subsidiary. Pursuant to the Labor Standards Act of Korea, most employees and executive officers with one or more years of service are entitled to severance benefits upon the termination of their employment based on their length of service and rate of pay. As of March 30, 2008, 98% of all employees of the Company were eligible for severance benefits.

Changes in the carrying value of accrued severance benefits are as follows:

	<u>Three months ended</u>	
	<u>March 30, 2008</u>	<u>April 1, 2007</u>
Beginning balance	\$ 75,869	\$64,642
Provisions	3,734	4,182
Severance payments	(1,612)	(2,964)
Effect of foreign currency translation and other	(4,319)	(759)
Ending balance	<u>73,672</u>	<u>65,101</u>
Less: Cumulative contributions to the National Pension Fund	(722)	(819)
Group Severance insurance plan	(850)	(901)
	<u>\$ 72,100</u>	<u>\$63,381</u>

The severance benefits are funded approximately 2.13% and 2.64% as of March 30, 2008 and April 1, 2007, respectively, through the Company's National Pension Fund and group severance insurance plan which will be used exclusively for payment of severance benefits to eligible employees. These amounts have been deducted from the accrued severance benefit balance.

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

	<u>Severance benefit</u>
2009	\$ 63
2010	37
2011	76
2012	151
2013	191
2014 – 2018	7,480

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

MagnaChip Semiconductor LLC and Subsidiaries
Notes to Condensed Consolidated Financial Statements – (Continued)
(Unaudited; tabular dollars in thousands, except unit data)

8. Redeemable Convertible Preferred Units

The Company issued 49,727 units as Series A redeemable convertible preferred units (the “Series A”) and 447,420 units as Series B redeemable convertible preferred units (the “Series B”) on September 23, 2004 and additionally issued 364 units of Series A and 3,272 units of Series B on November 30, 2004, respectively. All of Series A were redeemed by cash on December 27, 2004 and some of the Series B were redeemed by cash on December 15, 2004 and December 27, 2004.

Changes in Series B for the three month periods ended March 30, 2008 and April 1, 2007 are as follows:

	Three months ended			
	March 30, 2008		April 1, 2007	
	Units	Amount	Units	Amount
Beginning of the period	93,997	\$ 129,405	93,997	\$ 117,374
Accrual of preferred dividends	—	3,118	—	2,870
End of the period	<u>93,997</u>	<u>\$ 132,523</u>	<u>93,997</u>	<u>\$ 120,244</u>

The Series B were issued to the original purchasers of the Company in 2004. Holders of Series B receive dividends which are cumulative, whether or not earned or declared by the board of directors. The cumulative cash dividends accrue at the rate of 10% per unit per annum on the Series B original issue price, compounded semi-annually.

9. Earnings per Unit

The following table illustrates the computation of basic and diluted loss per common unit for the three-month periods ended March 30, 2008 and April 1, 2007:

	Three months ended	
	March 30, 2008	April 1, 2007
Net loss	\$ (67,897)	\$ (66,982)
Dividends accrued on preferred units	3,118	2,870
Net loss attributable to common units	<u>\$ (71,015)</u>	<u>\$ (69,852)</u>
Weighted-average common units outstanding	52,579,237	52,720,784
Basic and diluted loss per unit	<u>\$ (1.35)</u>	<u>\$ (1.32)</u>

The following outstanding redeemable convertible preferred units issued, options granted and restricted units issued were excluded from the computation of diluted loss per unit as they would have an anti-dilutive effect on the calculation:

	Three months ended	
	March 30, 2008	April 1, 2007
Redeemable convertible preferred units	93,997	93,997
Options	4,935,715	4,964,903
Restricted units	268,343	533,561

MagnaChip Semiconductor LLC and Subsidiaries
Notes to Condensed Consolidated Financial Statements – (Continued)
(Unaudited; tabular dollars in thousands, except unit data)

10. Restructuring and Impairment Charges

During the second quarter in 2007, the Company recognized \$1,978 thousand of restructuring accruals under SFAS No 146, *Accounting for Costs Associated with Exit or Disposal Activities* (“SFAS No. 146”). The restructuring charges were related to the closure of the Company’s five-inch wafer fabrication facilities and those charges consist of one-time termination benefits, transfer of machinery and other associated costs. Up to the first quarter of 2008, actual payments were charged against the restructuring accruals and the Company believes the restructuring activities are substantially completed as of March 30, 2008. Accordingly, the Company reversed \$875 thousand of unused restructuring accruals.

11. Uncertainty in Income Taxes

The Company’s subsidiaries file income tax returns in Korea, Japan, Taiwan, U.S. and other various jurisdictions. The Company is subject to income tax examinations by tax authorities of these jurisdictions for all years since the beginning of its operation in October 2004.

The Company adopted the provisions of FASB Interpretation (“FIN”) No. 48, *Accounting for Uncertainty in Income Taxes*—an interpretation of SFAS No. 109, on January 1, 2007. As a result of the implementation of FIN No. 48, the Company recognized a \$ 1,554 thousand of liabilities for unrecognized tax benefit, which are related to the temporary difference arising from the timing of expensing certain inventories. Such liabilities were accounted for as an increase to the January 1, 2007 balance of accumulated deficits. As of March 30, 2008 and April 1, 2007, the Company recoded \$1,662 thousand and \$1,593 thousand of liabilities for unrecognized tax benefits, respectively.

The Company recognizes interest and penalties accrued related to unrecognized tax benefits as income tax expenses. The Company recognized \$39 thousand and \$39 thousand of interest and penalties as income tax expense for the three months ended March 30, 2008 and April 1, 2007, respectively. Total interest and penalties accrued as of March 30, 2008, April 1, 2007 and as of the FIN No. 48 adoption date were \$692 thousand, \$569 thousand and \$530 thousand, respectively.

12. Segment Information

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

The Company’s chief operating decision maker (“CODM”) as defined by SFAS 131, *Disclosure about Segments of an Enterprise and Relate Information*, allocates resources to and assesses the performance of each segment using information about its revenue and gross profit. The Company does not identify or allocate assets by segments, nor does the CODM evaluate operating segments using discrete asset information. In addition, the Company does not allocate operating expense, interest income or expense, other income or expense, or income tax to the segments. Management does not evaluate segments based on these criteria.

MagnaChip Semiconductor LLC and Subsidiaries
Notes to Condensed Consolidated Financial Statements – (Continued)
(Unaudited; tabular dollars in thousands, except unit data)

The following sets forth information relating to the reportable segments:

	Three months ended	
	March 30, 2008	April 1, 2007
Net Sales		
Display Solutions	\$ 93,960	\$ 58,870
Imaging Solutions	24,322	11,772
Semiconductor Manufacturing Services	82,827	57,755
All other	1,943	23,386
Total segment net sales	<u>\$203,052</u>	<u>\$151,783</u>
Gross Profit		
Display Solutions	\$ 19,468	\$ 7,089
Imaging Solutions	922	(1,420)
Semiconductor Manufacturing Services	26,635	2,847
All other	841	6,407
Total segment gross profit	<u>\$ 47,866</u>	<u>\$ 14,923</u>

As of March 30, 2008, approximately 98% of the Company's property, plant and equipment are located in Korea.

Net sales from the Company's ten largest customers accounted for 62.8% and 70.2% for the three months ended March 30, 2008 and April 1, 2007, respectively.

The Company recorded \$46.1 million and \$42.8 million of sales to one customer within the Display Solutions segment, which represents greater than 10% of net sales, for the three months period ended March 30, 2008 and April 1, 2007, respectively.

MagnaChip Semiconductor LLC and Subsidiaries
Notes to Condensed Consolidated Financial Statements – (Continued)
(Unaudited; tabular dollars in thousands, except unit data)

13. Commitments and Contingencies

Advisory agreements were entered into as of October 6, 2004 by and between the Company and each of the advisors including Court Square Advisor, LLC (successor in interest to CVC Management LLC) (“Court Square”), CVC Capital Partners Asia Limited (“CVC Capital”) and Francisco Partners Management LLC (“Francisco Partners”). The Company was to pay each of Court Square and Francisco Partners an annual advisory fee the amount of which shall be the greater of \$1,379,163 per annum or 0.14777% per annum of annual consolidated revenue, and is also to pay CVC Capital an annual advisory fee the amount of which shall be the greater of \$741,673 per annum or 0.07946% per annum of annual consolidated revenue plus reasonable out-of-pocket expenses for an initial term of 10 years (subsequently extended for an additional year), subject to termination by either party upon written notice 90 days prior to the expiration of the initial term or any extension thereof. During the year ended December 31, 2005 and the three-month period ended December 31, 2004, the Company accrued \$3,545 thousand and \$890 thousand of accrued expenses under these agreements, respectively. During the year ended December 31, 2006, due to lower financial performances, the advisors agreed to waive the advisory fee and, therefore, the Company did not accrue any expenses. Effective June 30, 2007, the parties to the advisory agreements entered into that certain the First Amendment to Advisory Agreement under which all rights and obligations of the parties terminate except for indemnity and liability provisions. The Amendment provides that upon a sale of the Company to an unaffiliated third party or a firmly underwritten public offering of common equity of the Company with net proceeds of \$50 million or more, the Company must pay a termination fee to the advisors in the amount of all advisory fees not paid under the advisory agreements plus the net present value of all advisory fees that would have been payable through October 6, 2014 had the advisory agreements not been amended.

The Company has made a contingent commitment to its employees that it will pay an incentive of approximately \$30 million in total. This incentive would be distributed to all employees, other than senior management, who are employed by the Company at the closing date of the Company’s initial public offering.

14. Condensed Consolidating Financial Statements

The senior secured credit facility and Second Priority Senior Secured Notes are each fully and unconditionally guaranteed by the Company and all of its subsidiaries, except for MagnaChip Semiconductor (Shanghai) Company Limited. The Senior Subordinated Notes are fully and unconditionally guaranteed by the Company and all of its subsidiaries, except for MagnaChip Semiconductor, Ltd. (Korea) and MagnaChip Semiconductor (Shanghai) Company Limited. The Senior Subordinated Notes are structurally subordinated to the creditors of our principal manufacturing subsidiary, MagnaChip Semiconductor, Ltd. (Korea), which accounts for a majority of our net sales and substantially all of our assets.

Below are condensed consolidating balance sheets as of March 30, 2008 and December 31, 2007, condensed consolidating statements of operations and of cash flows for the three months ended March 30, 2008 and April 1, 2007 of those entities that guarantee the Senior Subordinated Notes, those that do not, MagnaChip Semiconductor LLC, and the co-issuers.

MagnaChip Semiconductor LLC and Subsidiaries
Notes to Condensed Consolidated Financial Statements – (Continued)
(Unaudited; tabular dollars in thousands, except unit data)

Condensed Consolidating Statement of Operations
For the three months ended March 30, 2008

	<u>MagnaChip Semiconductor LLC (Parent)</u>	<u>Co-Issuers</u>	<u>Non- Guarantors</u>	<u>Guarantors</u>	<u>Eliminations</u>	<u>Consolidated</u>
Net sales	\$ —	\$ —	\$193,378	\$105,315	\$ (95,641)	\$ 203,052
Cost of sales	—	—	151,089	91,770	(87,673)	155,186
Gross profit	—	—	42,289	13,545	(7,968)	47,866
Selling, general and administrative expenses	120	482	15,360	3,462	(200)	19,224
Research and development expenses	—	—	36,846	7,804	(8,303)	36,347
Restructuring and impairment charge	—	—	(875)	—	—	(875)
Operating income (loss)	(120)	(482)	(9,042)	2,279	535	(6,830)
Other income (expense)	—	12,532	(55,050)	(16,041)	—	(58,559)
Income (loss) before income taxes, equity in earnings (loss) of related equity investment	(120)	12,050	(64,092)	(13,762)	535	(65,389)
Income tax expenses	—	43	44	2,421	—	2,508
Loss before equity in loss of related investment	(120)	12,007	(64,136)	(16,183)	535	(67,897)
Loss of related investment	(67,777)	(80,109)	—	(63,344)	211,230	—
Net loss	<u>\$ (67,897)</u>	<u>\$ (68,102)</u>	<u>\$ (64,136)</u>	<u>\$ (79,527)</u>	<u>\$ 211,765</u>	<u>\$ (67,897)</u>
Dividends accrued on preferred units	3,118	—	—	—	—	3,118
Net loss attributable to common units	<u>\$ (71,015)</u>	<u>\$ (68,102)</u>	<u>\$ (64,136)</u>	<u>\$ (79,527)</u>	<u>\$ 211,765</u>	<u>\$ (71,015)</u>

MagnaChip Semiconductor LLC and Subsidiaries
Notes to Condensed Consolidated Financial Statements – (Continued)
(Unaudited; tabular dollars in thousands, except unit data)

Condensed Consolidating Statement of Operations
For the three months ended April 1, 2007

	<u>MagnaChip Semiconductor LLC (Parent)</u>	<u>Co-Issuers</u>	<u>Non- Guarantors</u>	<u>Guarantors</u>	<u>Eliminations</u>	<u>Consolidated</u>
Net sales	\$ —	\$ —	\$ 146,606	\$ 56,842	\$ (51,665)	\$ 151,783
Cost of sales	—	—	135,714	48,000	(46,854)	136,860
Gross profit	—	—	10,892	8,842	(4,811)	14,923
Selling, general and administrative expenses	56	332	18,802	3,412	127	22,729
Research and development expenses	—	—	35,298	4,584	(4,764)	35,118
Operating income (loss)	(56)	(332)	(43,208)	846	(174)	(42,924)
Other income (expenses)	—	(1,106)	(19,988)	(713)	—	(21,807)
Income (loss) before income taxes, equity in loss of related equity investment	(56)	(1,438)	(63,196)	133	(174)	(64,731)
Income tax expenses	—	43	33	2,175	—	2,251
Income (loss) before equity in loss of related investment	(56)	(1,481)	(63,229)	(2,042)	(174)	(66,982)
Loss of related investment	(66,926)	(65,445)	—	(63,590)	195,961	—
Net loss	<u>\$ (66,982)</u>	<u>\$ (66,926)</u>	<u>\$ (63,229)</u>	<u>\$ (65,632)</u>	<u>\$ 195,787</u>	<u>\$ (66,982)</u>
Dividends accrued on preferred units	2,870	—	—	—	—	2,870
Net loss attributable to common units	<u>\$ (69,852)</u>	<u>\$ (66,926)</u>	<u>\$ (63,229)</u>	<u>\$ (65,632)</u>	<u>\$ 195,787</u>	<u>\$ (69,852)</u>

MagnaChip Semiconductor LLC and Subsidiaries
Notes to Condensed Consolidated Financial Statements – (Continued)
(Unaudited; tabular dollars in thousands, except unit data)

Condensed Consolidating Balance Sheet
March 30, 2008

	MagnaChip Semiconductor LLC (Parent)	Co-Issuers	Non- Guarantors	Guarantors	Eliminations	Consolidated
Assets						
Current assets						
Cash and cash equivalents	\$ 108	\$ 21,745	\$ 28,174	\$ 3,449	\$ —	\$ 53,476
Accounts receivable, net	—	—	151,308	83,575	(87,608)	147,275
Inventories, net	—	—	64,366	686	(127)	64,925
Other receivables	—	717	7,010	13,297	(16,026)	4,998
Short-term inter-company loans	—	60,000	—	60,000	(120,000)	—
Other current assets	3,095	13,693	16,781	11,170	(24,941)	19,798
Total current assets	<u>3,203</u>	<u>96,155</u>	<u>267,639</u>	<u>172,177</u>	<u>(248,702)</u>	<u>290,472</u>
Property, plant and equipment, net	—	—	255,981	4,997	—	260,978
Intangible assets, net	—	—	74,875	17,807	(160)	92,522
Investments in subsidiaries	(395,483)	(489,454)	—	(284,650)	1,169,587	—
Long-term inter-company loans	—	824,640	—	636,503	(1,461,143)	—
Other non-current assets	—	13,150	45,218	10,628	(19,025)	49,971
Total assets	<u>\$ (392,280)</u>	<u>\$ 444,491</u>	<u>\$ 643,713</u>	<u>\$ 557,462</u>	<u>\$ (559,443)</u>	<u>\$ 693,943</u>
Liabilities and Unitholders' equity						
Current liabilities						
Accounts payable	\$ 27	\$ —	\$ 131,761	\$ 70,253	\$ (87,608)	\$ 114,433
Other accounts payable	3,020	5	39,770	2,190	(16,026)	28,959
Accrued expenses	40	11,322	18,506	15,780	(21,719)	23,929
Short-term borrowings	—	80,000	60,000	60,000	(120,000)	80,000
Other current liabilities	—	1,497	1,626	5,094	(3,222)	4,995
Total current liabilities	<u>3,087</u>	<u>92,824</u>	<u>251,663</u>	<u>153,317</u>	<u>(248,575)</u>	<u>252,316</u>
Long-term borrowings	—	750,000	621,000	840,143	(1,461,143)	750,000
Accrued severance benefits, net	—	—	71,539	561	—	72,100
Other non-current liabilities	—	—	12,287	21,632	(19,025)	14,894
Total liabilities	<u>3,087</u>	<u>842,824</u>	<u>956,489</u>	<u>1,015,653</u>	<u>(1,728,743)</u>	<u>1,089,310</u>
Commitments and contingencies						
Series A redeemable convertible preferred units	—	—	—	—	—	—
Series B redeemable convertible preferred units	132,523	—	—	—	—	132,523
Total redeemable convertible preferred units	<u>132,523</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>132,523</u>
Unitholders' equity						
Common units	52,847	136,229	39,005	55,778	(231,012)	52,847
Additional paid-in capital	3,135	1,978	155,962	108,045	(265,985)	3,135
Accumulated deficit	(635,464)	(588,883)	(556,081)	(680,926)	1,825,890	(635,464)
Accumulated other comprehensive income	51,592	52,343	48,338	58,912	(159,593)	51,592
Total unitholders' equity	<u>(527,890)</u>	<u>(398,333)</u>	<u>(312,776)</u>	<u>(458,191)</u>	<u>1,169,300</u>	<u>(527,890)</u>
Total liabilities, redeemable convertible preferred units and unitholders' equity	<u>\$ (392,280)</u>	<u>\$ 444,491</u>	<u>\$ 643,713</u>	<u>\$ 557,462</u>	<u>\$ (559,443)</u>	<u>\$ 693,943</u>

MagnaChip Semiconductor LLC and Subsidiaries
Notes to Condensed Consolidated Financial Statements – (Continued)
(Unaudited; tabular dollars in thousands, except unit data)

Condensed Consolidating Balance Sheet
December 31, 2007

	MagnaChip Semiconductor LLC (Parent)	Co-Issuers	Non- Guarantors	Guarantors	Eliminations	Consolidated
Assets						
Current assets						
Cash and cash equivalents	\$ 163	\$ 31,248	\$ 24,301	\$ 8,633	\$ —	\$ 64,345
Accounts receivable, net	—	—	131,101	68,156	(75,468)	123,789
Inventories, net	—	—	71,930	4,598	(661)	75,867
Other receivables	—	717	5,846	12,702	(13,494)	5,771
Short-term intercompany loan	—	50,000	—	50,000	(100,000)	—
Other current assets	1,129	9,037	9,309	6,047	(14,571)	10,951
Total current assets	1,292	91,002	242,487	150,136	(204,194)	280,723
Property, plant and equipment, net	—	—	275,997	3,672	—	279,669
Intangible assets, net	—	—	86,571	18,328	(174)	104,725
Investments in subsidiaries	(348,345)	(431,611)	—	(243,130)	1,023,086	—
Long-term inter-company loans	—	809,754	—	634,837	(1,444,591)	—
Other non-current assets	—	13,897	38,866	9,823	(19,820)	42,766
Total assets	\$ (347,053)	\$ 483,042	\$ 643,921	\$ 573,666	\$ (645,693)	\$ 707,883
Liabilities and Unitholders' equity						
Current liabilities						
Accounts payable	\$ —	\$ —	\$ 101,056	\$ 64,389	\$ (75,468)	\$ 89,977
Other accounts payable	1,021	5	40,381	2,748	(13,494)	30,661
Accrued expenses	—	3,389	16,412	9,647	(11,348)	18,100
Short-term borrowings	—	80,000	50,000	50,000	(100,000)	80,000
Other current liabilities	—	503	3,714	5,383	(3,223)	6,377
Total current liabilities	1,021	83,897	211,563	132,167	(203,533)	225,115
Long-term borrowings	—	750,000	621,000	823,591	(1,444,591)	750,000
Accrued severance benefits, net	—	—	73,700	476	—	74,176
Other non-current liabilities	—	—	4,867	21,619	(19,820)	6,666
Total liabilities	1,021	833,897	911,130	977,853	(1,667,944)	1,055,957
Commitments and contingencies						
Series A redeemable convertible preferred units	—	—	—	—	—	—
Series B redeemable convertible preferred units	129,405	—	—	—	—	129,405
Total redeemable convertible preferred units	129,405	—	—	—	—	129,405
Unitholders' equity						
Common units	52,844	136,229	39,005	55,778	(231,012)	52,844
Additional paid-in capital	3,077	1,899	155,888	107,946	(265,733)	3,077
Accumulated deficit	(564,449)	(520,781)	(491,945)	(601,399)	1,614,125	(564,449)
Accumulated other comprehensive income	31,049	31,798	29,843	33,488	(95,129)	31,049
Total unitholders' equity	(477,479)	(350,855)	(267,209)	(404,187)	1,022,251	(477,479)
Total liabilities, redeemable convertible preferred units and unitholders' equity	\$ (347,053)	\$ 483,042	\$ 643,921	\$ 573,666	\$ (645,693)	\$ 707,883

MagnaChip Semiconductor LLC and Subsidiaries
Notes to Condensed Consolidated Financial Statements – (Continued)
(Unaudited; tabular dollars in thousands, except unit data)

Condensed Consolidating Statement of Cash Flows
For the three months ended March 30, 2008

	MagnaChip Semiconductor LLC (Parent)	Co-Issuers	Non- Guarantors	Guarantors	Eliminations	Consolidated
Cash flow from operating activities:						
Net loss	\$ (67,897)	\$ (68,102)	\$ (64,136)	\$ (79,527)	\$ 211,765	\$ (67,897)
Adjustments to reconcile net loss to net cash provided by (used in)						
operating activities						
Depreciation and amortization	—	—	20,212	1,065	—	21,277
Provision for severance benefits	—	—	3,707	27	—	3,734
Amortization of debt issuance costs	—	747	245	—	—	992
(Gain) loss on foreign currency translation, net	—	(14,887)	41,461	16,702	—	43,276
Loss (gain) on disposal of property, plant and equipments, net	—	—	(3,581)	1	—	(3,580)
Loss of related investment	67,777	80,109	—	63,344	(211,230)	—
Other	5	—	359	(180)	—	184
Changes in operating assets and liabilities:						
Accounts receivable	—	—	(25,463)	(11,989)	12,139	(25,313)
Inventories	—	—	3,576	4,033	(537)	7,072
Other receivables	—	—	(1,374)	(554)	2,533	605
Deferred tax assets	—	—	—	396	(2)	394
Accounts payable	—	—	27,097	3,043	(12,139)	18,001
Other accounts payable	2,027	—	(761)	(645)	(2,533)	(1,912)
Accrued expenses	40	7,933	2,917	6,044	(10,371)	6,563
Other current assets	(1,967)	(5,646)	(733)	(4,896)	9,536	(3,706)
Other current liabilities	—	43	(1,989)	(514)	866	(1,594)
Payment of severance benefits	—	—	(1,612)	—	—	(1,612)
Other	—	300	(1,377)	(2,506)	3,593	10
Net cash provided by (used in) operating activities	(15)	497	(1,452)	(6,156)	3,620	(3,506)
Cash flows from investing activities:						
Purchase of plant, property and equipment	—	—	(8,545)	(1,088)	—	(9,633)
Payment for intellectual property registration	—	—	(209)	(228)	—	(437)
Proceeds from disposal of plant, property and equipment	—	—	3,581	—	—	3,581
Other	—	(10,000)	(212)	(9,996)	20,000	(208)
Net cash used in investing activities	—	(10,000)	(5,385)	(11,312)	20,000	(6,697)
Cash flows from financing activities:						
Exercise of unit options	28	—	—	—	—	28
Repurchase of common unit	(68)	—	—	—	—	(68)
Proceeds from short-term borrowings	—	90,000	70,000	70,000	(140,000)	90,000
Repayment of short-term borrowings	—	(90,000)	(60,000)	(60,000)	120,000	(90,000)
Net cash provided by (used in) financing activities	(40)	—	10,000	10,000	(20,000)	(40)
Effect of exchange rates on cash and cash equivalents	—	—	710	2,284	(3,620)	(626)
Net increase (decrease) in cash and cash equivalents	(55)	(9,503)	3,873	(5,184)	—	(10,869)
Cash and cash equivalents:						
Beginning of the period	163	31,248	24,301	8,633	—	64,345
End of the period	\$ 108	\$ 21,745	\$ 28,174	\$ 3,449	\$ —	\$ 53,476

MagnaChip Semiconductor LLC and Subsidiaries
Notes to Condensed Consolidated Financial Statements – (Continued)
(Unaudited; tabular dollars in thousands, except unit data)

Condensed Consolidating Statement of Cash Flows
For the three months ended April 1, 2007

	<u>MagnaChip Semiconductor LLC (Parent)</u>	<u>Co-Issuers</u>	<u>Non- Guarantors</u>	<u>Guarantors</u>	<u>Eliminations</u>	<u>Consolidated</u>
Cash flow from operating activities						
Net loss	\$ (66,982)	\$ (66,926)	\$ (63,229)	\$ (65,632)	\$ 195,787	\$ (66,982)
Adjustments to reconcile net loss to net cash provided by (used in)						
operating activities						
Depreciation and amortization	—	—	42,932	1,010	—	43,942
Provision for severance benefits	—	—	4,162	20	—	4,182
Amortization of debt issuance costs	—	722	241	—	—	963
Loss (gain) on foreign currency translation, net	—	(2,279)	7,773	2,355	—	7,849
Loss of related investment	66,926	65,445	—	63,590	(195,961)	—
Other	—	(1)	(97)	8	—	(90)
Changes in operating assets and liabilities						
Accounts receivable	—	—	(7,492)	(7,329)	10,112	(4,709)
Inventories	—	—	(12,370)	206	(19)	(12,183)
Other receivables	—	—	(457)	1,681	(1,182)	42
Accounts payable	—	—	7,659	5,063	(10,112)	2,610
Other accounts payable	—	—	(2,635)	(4,153)	1,182	(5,606)
Accrued expenses	36	8,463	7,948	4,478	(9,515)	11,410
Other current assets	18	(4,626)	34	(3,539)	8,715	602
Other current liabilities	—	43	(475)	(265)	806	109
Payment of severance benefits	—	—	(2,964)	—	—	(2,964)
Other	—	1	281	(304)	649	627
Net cash provided by (used in) operating activities	<u>(2)</u>	<u>842</u>	<u>(18,689)</u>	<u>(2,811)</u>	<u>462</u>	<u>(20,198)</u>
Cash flows from investing activities						
Purchase of plant, property and equipment	—	—	(7,295)	(526)	—	(7,821)
Payments for intellectual property registration	—	—	(687)	(34)	194	(527)
Proceeds from disposal of plant, property and equipment	—	—	—	9	—	9
Other	—	—	(4)	(543)	—	(547)
Net cash used in investing activities	<u>—</u>	<u>—</u>	<u>(7,986)</u>	<u>(1,094)</u>	<u>194</u>	<u>(8,886)</u>
Cash flows from financing activities						
Net cash used in financing activities	—	—	—	—	—	—
Effect of exchange rate on cash and cash equivalents	—	—	(499)	330	(656)	(825)
Net increase (decrease) in cash and cash equivalents	<u>(2)</u>	<u>842</u>	<u>(27,174)</u>	<u>(3,575)</u>	<u>—</u>	<u>(29,909)</u>
Cash and cash equivalents						
Beginning of the period	321	892	72,608	15,352	—	89,173
End of the period	<u>\$ 319</u>	<u>\$ 1,734</u>	<u>\$ 45,434</u>	<u>\$ 11,777</u>	<u>\$ —</u>	<u>\$ 59,264</u>

PART I. Financial Information – (continued)

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

The following Management’s Discussion and Analysis of Financial Condition and Results of Operations contain forward-looking statements within the meaning of the federal securities laws 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 and the “Risk Factors” and elsewhere in this report.

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

Overview

We are a Korea-based designer and manufacturer of analog and mixed-signal semiconductor products for high volume consumer applications, such as mobile phones, digital televisions, flat panel displays, notebook computers, mobile multimedia devices and digital cameras. Our analog and mixed-signal semiconductor products and services enable the high resolution display of images and video, conversion of analog signals, such as light and sound, into digital data as well as manage power consumption. Our display driver solutions cover a wide range of display sizes used in high definition liquid crystal display, or LCD, televisions, flat panel displays, notebook computers and mobile communications and entertainment devices. Our image sensor solutions are highly integrated and designed to provide brighter, sharper and more colorful image quality in a variety of light conditions for use primarily in mobile handset, PC and notebook computer camera applications and security systems. We have also utilized our technology platform and manufacturing process expertise to design power management solutions in order to expand our market opportunity and address more of our customers’ needs. We offer semiconductor manufacturing services to providers of analog and mixed-signal semiconductors that require differentiated, specialty process technologies such as high voltage CMOS, embedded memory and power management.

The variety of analog and mixed-signal semiconductor products and services we offer is based on a technology platform and strategy that allows us to address multiple end markets and to develop and introduce new products quickly. We believe that our manufacturing integration and broad intellectual property enable us to respond quickly to our consumer electronics and semiconductor customers’ needs. To maintain and increase our profitability, we must forecast trends in consumer product demand and invest in relevant research and development activities and in appropriate capital equipment. We expect to maintain or increase our expenditures on research and development in future periods to maintain our position as a leading provider of semiconductor products and services in the segments in which we compete.

The semiconductor markets in which we compete are characterized by the use of advanced production technology and rapid technological advances. 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. We manage our pricing, production and product development activities so as to benefit from, or at least mitigate any adverse impact of, declining market prices for our products. For example, in some periods we are able to offset the impact of declining selling prices for existing products

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through 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 preclude losses from inevitable product and productive capacity obsolescence.

Demand for our products and services is driven primarily by overall demand for the consumer end products in which our products are used and, consequently, can be adversely affected by periods of weak consumer spending in developed countries. Nonetheless, the consumer electronics market is large and rapidly growing, driven by consumers seeking to enjoy rich media content, such as digital and high definition audio and video, mobile television, games and digital photography. As a company, we seek to address market segments with higher growth rates than the overall consumer electronics industry. In recent years, we have experienced increasing demand from OEMs and consumers in developing countries such as China and India, and we expect to derive a substantial portion of our growth in the next decade from growing demand in such markets. We also expect that new competitors will emerge in these markets that may place increased pressure on the pricing for our products and services, but we believe that the competitive offerings will be, at least initially, of lower quality than the products and services that we offer, and that the impact from the increased competition will be more than offset by demand arising from such markets. Further, we believe we are well-positioned geographically to capture this demand, with our Korea-based operations.

Within particular operating segments and products, net sales are driven by “design wins” in which we or another company is selected by an electronics OEM or other potential customer to supply its demand of a particular product. These competitions typically determine the semiconductor supplier for the life of a particular end product and specify in many cases the production volume and pricing of a particular semiconductor product throughout the life of the end product. In any given period, our net sales depend heavily upon the end-market demand for the goods in which our products are used and the inventory levels maintained by our customers.

Our products and services require investments in capital equipment. We focus on specialty technologies, however, that do not require investments in leading edge manufacturing equipment, and as a result, our business tends not to be as subject to the pronounced boom and bust cycles characteristic of other semiconductor markets, in which the introduction of substantial, high-fixed cost capacity can cause product prices to plunge dramatically. In general, we seek to invest in manufacturing capacity that can be used for multiple high-value applications over an extended period of time. We believe this capital investment strategy enables us to optimize our capital investments and facilitates deeper and more diversified product and service offerings.

Our success going forward will depend upon our ability to adapt to future challenges such as the emergence of new competitors for our products and services or the consolidation of current competitors. Additionally, we must innovate to remain ahead of, or at least rapidly adapt to, technological breakthroughs that may lead to a step function change in the technology necessary to deliver our products and services. We believe that our established relationships and close collaboration with leading customers, such as LG Display (formerly LG.Philips LCD), Sharp, and Samsung, enhance our visibility into new product opportunities, market and technology trends and improve our ability to meet these challenges successfully.

Business Segments

We report in three separate business segments because we derive our revenues from three principal business lines: Display Solutions, Imaging Solutions and Semiconductor Manufacturing Services. Additionally, we have a fourth operating segment, Power Solutions, from which we expect to begin earning revenues in later quarters in 2008. We have identified these segments based on how we allocate resources and assess our performance.

- *Display Solutions:* Our Display Solutions segment offers flat panel display drivers for a wide range of small to large panel displays used in digital televisions, mobile phones, LCD monitors, notebook computers and mobile multimedia devices, such as handheld games. Our products cover a broad range of interfaces, packages and technologies, including AMOLED, LTPS and TFT technologies.
- *Imaging Solutions:* Our Imaging Solutions segment covers a broad spectrum of videographics array, or VGA; 1.3, 2.1 and 3.2 megapixel, or MP; CMOS image sensors for large and rapidly growing camera-equipped applications, such as mobile handsets, PCs, digital cameras, notebook computers and security cameras. Our image sensors are designed to provide brighter, sharper and more colorful image quality for use primarily in applications that require a small form factor, low power consumption and high sensitivity in a variety of light conditions.
- *Semiconductor Manufacturing Services:* Our Semiconductor Manufacturing Services segment manufactures wafers for analog and mixed-signal semiconductor companies based on their designs. The activities conducted within this segment are, in substance, identical to those conducted in our Display Solution and Imaging Solution businesses. The only difference is that, in the Semiconductor Manufacturing Services segment, the product designs originate from our customers. The customers provide us with their designs, and we manufacture and sell the

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products to the customers based upon such designs. We offer over 170 process flows to our manufacturing services customers. We also often partner with key customers to jointly develop or customize specialized processes that enable our customers to improve their products and allow us to develop unique manufacturing expertise. Our manufacturing services offering is targeted at customers who require differentiated, specialty analog and mixed-signal process technologies such as high voltage CMOS, embedded memory and power. These customers typically serve high growth and high volume applications in the consumer, computing, wireless and industrial end markets.

Results of Operations

The following table sets forth consolidated results of operations for the three months ended March 30, 2008 and April 1, 2007, respectively:

	March 30, 2008		April 1, 2007		Change Amount
	Amount	% of net sales	Amount (in millions; %)	% of net sales	
Net sales	\$203.1	100.0%	\$151.8	100.0%	\$ 51.3
Cost of sales	155.2	76.4	136.9	90.2	18.3
Gross profit	47.9	23.6	14.9	9.8	32.9
Selling, general and administrative expenses	19.2	9.5	22.7	15.0	(3.5)
Research and development expenses	36.3	17.9	35.1	23.1	1.2
Restructuring and impairment charges	(0.9)	(0.4)	—	—	(0.9)
Operating income (loss)	(6.8)	(3.4)	(42.9)	(28.3)	36.1
Interest expense, net	15.7	7.7	14.4	9.5	1.3
Foreign currency gain (loss), net	(42.9)	(21.1)	(7.4)	(4.9)	(35.5)
Income (loss) before income taxes	(65.4)	(32.2)	(64.7)	(42.6)	(0.7)
Income tax expenses	2.5	1.2	2.3	1.5	0.3
Net income (loss)	<u>\$ (67.9)</u>	<u>(33.4)%</u>	<u>\$ (67.0)</u>	<u>(44.1)%</u>	<u>\$ (0.9)</u>

Net Sales

	Three months ended March 30, 2008		Three months ended April 1, 2007		Change Amount
	Amount	% of Total	Amount (in millions; %)	% of total	
Display Solutions	\$ 94.0	46.3%	\$ 58.9	38.8%	\$ 35.1
Imaging Solutions	24.3	12.0%	11.8	7.8	12.6
Semiconductor Manufacturing Services	82.8	40.8%	57.8	38.1	25.1
All other	2.0	1.0%	23.4	15.4	(21.4)
	<u>\$ 203.1</u>	<u>100.0%</u>	<u>\$ 151.8</u>	<u>100.0%</u>	<u>\$ 51.3</u>

Net sales for the three months ended March 30, 2008 increased \$51.3 million, or 33.8% compared to the three months ended April 1, 2007. Net sales generated in the three operating segments during the current quarter were \$201.1 million, an increase of \$72.7 million or 56.6% from the net sales of the three operating segments for the prior-year quarter, primary due to increased design wins and new account development. We believe that we will continue to experience growth in future periods due to expansion of these design wins into full production.

Display Solutions. Net sales from Display Solutions for the three months ended March 30, 2008 were \$94.0 million, a \$35.1 million or 59.6% increase from \$58.9 million for the three months ended April 1, 2007. The increase resulted from a 76.6% sales volume increase, primarily from display driver products for LCD televisions, PC monitors and mobile devices. These increases in volume were partially offset by a 14.9% decrease in average selling prices. We believe that strong demand for display driver interfaces that manage power consumption efficiently as well as for high-resolution and feature-rich display drivers will contribute positively to the results of our Display Solutions segment in future quarters.

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Imaging Solutions. Net sales from Imaging Solutions increased \$12.6 million in the current quarter, or 106.6% compared to net sales generated in the prior year quarter. This increase resulted from a 145.3% sales volume increase, particularly of small form factor VGA products, and was partially offset by a 12.2% decrease in average selling prices.

Semiconductor Manufacturing Services. Net sales from Semiconductor Manufacturing Services for the first quarter of 2008, were \$82.8 million, a \$25.1 million or 43.4% increase compared to net sales of \$57.8 million for the prior year quarter. This increase was primarily due to a 59.6% sales volume increase. We expect the results for our Semiconductor Manufacturing Services segment to remain stable or grow in the remainder of 2008.

All other. Net sales from All other for the three months ended March 30, 2008 were \$2.0 million compared to \$23.4 million for the three months ended April 1, 2007. This decrease of \$21.4 million substantially represents the revenue decrease from our unit processing service rendered to Hynix.

Net Sales by Geographic Region

The following table sets forth our net sales by geographic region and the percentage of total net sales represented by each geographic region for the three months ended March 30, 2008 and April 1, 2007, respectively:

	Three months ended March 30, 2008		Three months ended April 1, 2007	
	Amount	% of Total	Amount	% of Total
	(in millions; %)			
Korea	\$ 104.0	51.2%	\$ 99.3	65.5%
Asia Pacific	47.7	23.5	32.5	21.4
Japan	28.6	14.1	7.9	5.2
North America	18.1	8.9	9.2	6.0
Europe	4.7	2.3	2.9	1.9
Total net revenues	<u>\$ 203.1</u>	100.0%	<u>\$ 151.8</u>	100.0%

Gross Profit

	Three months ended March 30, 2008		Three months ended April 1, 2007		Change Amount
	Amount	% of net sales	Amount	% of net sales	
	(in millions; %)				
Display Solutions	\$ 19.5	20.7%	\$ 7.1	12.0%	\$ 12.4
Imaging Solutions	0.9	3.8	(1.4)	(12.1)	2.3
Semiconductor Manufacturing Services	26.6	32.2	2.8	4.9	23.8
All other	0.8	43.3	6.4	27.4	(5.6)
	<u>\$ 47.9</u>	23.6%	<u>\$ 14.9</u>	9.8%	<u>\$ 32.9</u>

Total gross profit increased \$32.9 million in the first quarter of 2008, or 220.8%, compared to the gross profit generated in the prior-year quarter. Gross profit percentage for the current quarter was 23.6% of net sales, an increase of 13.8% from 9.8% for the prior-year quarter. This increase in gross profit percentage was primarily attributable to an overall decrease in unit costs due to increase in overall production volume and decrease in depreciation expense. We expect our gross profit to benefit in the next several quarters from the sale of inventory reflecting our reduced cost structure as well as due to increased capacity utilization.

Display Solutions. Gross profit percentage for Display Solutions for the three months ended March 30, 2008 improved to 20.7% compared to 12.0% for the three months ended April 1, 2007 primarily due to a 76.6% increase in sales volume and a decrease in unit costs that resulted from an increase in overall production volume.

Imaging Solutions. Gross profit percentage for Imaging Solutions increased to 3.8% in the first quarter ended March 30, 2008 compared to a gross loss in the first quarter ended April 1, 2007 primarily due to a 145.3% increase in sales volume.

Semiconductor Manufacturing Services. Gross profit for Semiconductor Manufacturing Services improved to 32.2% in the first quarter of 2008 from 4.9% in the prior-year quarter. This increase was due to a 59.6% increase in sales volume and a decrease in unit costs, resulting from an overall increase in production volume.

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All other. Gross profit percentage for All other for current quarter increased to 43.3% from 27.4% for the prior year quarter. This improvement in gross profit percentage is mainly attributable to lower fixed cost per unit. With respect to our new power management solutions business, we expect positive gross margin, as it will generate net sales from newly introduced products which should realize relatively higher average selling prices and benefit from efficient production process technology.

Operating Expenses

Selling, General and Administrative Expenses. Selling, general and administrative expenses were \$19.2 million or 9.5% of net sales for the three months ended March 30, 2008 compared to \$22.7 million or 15.0% for the three months ended April 1, 2007. The decrease of \$ 3.5 million or 15.4% from the prior-year quarter was mainly due to a \$3.6 million gain from the disposal of tangible assets.

Research and Development Expenses. Research and development expenses for the current quarter were \$36.3 million, an increase of \$1.2 million or 3.5% from \$35.1 million for the prior year quarter. This increase in research and development expenses essentially represented our focus on the introduction of new products, especially for the Imaging Solutions and Display Solutions segments. As a percentage of net sales, research and development expenses for the current quarter decreased to 17.9% compared to 23.1% for the prior-year quarter. We expect research and development expenses in 2008 to be generally consistent with the levels of 2007 on a percentage of net sales basis.

Restructuring and Impairment Charges. During the three-month period ending July 1, 2007, we recognized \$2.0 million of restructuring accruals under SFAS No 146, *Accounting for Costs Associated with Exit or Disposal Activities* ("SFAS No. 146"). The restructuring charges were related to the closure of our five-inch wafer fabrication facilities, and those charges consist of one-time termination benefits, transfer of machinery and other associated costs. Prior to and during the three months ended March 30, 2008, actual payments were charged against the restructuring accruals. We believe the restructuring activities are substantially completed as of March 30, 2008. Accordingly, we reversed \$0.9 million of unused restructuring accruals.

Other Income (Expense)

Interest Expense. Net. Net interest expense was \$15.7 million during the three months ended March 30, 2008 compared to \$14.4 million for the three months ended April 1, 2007. Interest expense was incurred to service our notes in the amount of \$750.0 million and drawings under our senior secured facility. At March 30, 2008, the notes bore interest at a weighted average interest rate of 7.80%. Drawings under our senior secured credit facility bore interest at March 30, 2008 at either three-month LIBOR plus 4.75% or ABR plus 3.75%. The increase in net interest expense was mainly due to an increase in interest expense driven by drawdowns from our senior secured credit facility and a decrease in interest income from financial assets including cash and cash equivalents.

Foreign Currency Gain (Loss), net. Net foreign currency loss for the three months ended March 30, 2008 was \$42.9 million, compared to net foreign exchange loss of \$7.4 million for the three months ended April 1, 2007.

A substantial portion of our net foreign currency gain or loss is non-cash translation gain or loss recorded for intercompany borrowings at our Korean subsidiary and is affected by changes in the exchange rate between the Korea won and the U.S. dollar. Foreign currency translation loss from the intercompany borrowings was included in determining our consolidated net income since the intercompany borrowings were not considered long-term investments in nature because management intended to repay these intercompany borrowings at their maturity dates. The Korean Won to U.S. dollar exchange rates were 992.4:1 and 941.1:1 using the noon buying rate in effect as of March 30, 2008 and April 1, 2007, respectively, as quoted by the Federal Reserve Bank of New York.

Income Tax Expenses

Income Tax Expenses. Income tax expenses for the current quarter were \$2.5 million, consistent with income tax expenses of \$2.3 million for the same quarter of 2007. Income tax expense for the first quarter 2008 was comprised of \$0.7 million of current income taxes incurred in various jurisdictions in which we operate, \$1.4 million of withholding taxes mostly paid on intercompany interest payment and \$0.4 million of income tax increase effect from the change of deferred tax assets. Due to the uncertainty of the utilization of foreign tax credits, we did not recognize these withholding taxes as deferred assets

Liquidity and Capital Resources

Our principal capital requirements are to invest in research and development and capital equipment, to make debt service payments on the notes and our senior secured credit facility and to fund working capital needs. We anticipate that operating cash flow, together with available borrowing capacity under our senior secured credit facility, will be sufficient to meet our research and development and capital expenditures needs, to service requirements on our debt obligations and to fund our working capital needs for the foreseeable future. As of March 30, 2008, we had total outstanding long-term debt of \$750.0 million.

Our principal sources of liquidity are our cash, cash equivalents and available borrowings under our senior secured credit facility of \$100 million. As of March 30, 2008, our cash and cash equivalents balance was \$53.5 million or 7.7% of our total assets, a \$10.8 million decrease from \$64.3 million or 9.1% of total assets as of December 31, 2007. The decrease in cash and cash equivalents during the first quarter of 2008 was primarily attributable to cash outflow of \$3.5 million in operating activities, coupled with cash outflow associated with quarterly capital expenditures of \$10.1 million.

During the three months ended March 30, 2008, net cash used in operating activities was \$3.5 million, compared to \$20.2 million of net cash used by operating activities during the prior-year quarter. This difference in cash from operating activities between the two periods was primarily attributable to increase in gross profit of \$32.9 million resulting mainly from higher revenue. The net operating cash outflow for the current quarter principally reflects our net loss of \$67.9 million adjusted by non-cash charges of \$65.9 million, which mainly consisted of depreciation and foreign currency translation loss and an increase in operating assets and liabilities of \$1.5 million.

Our working capital balance as of March 30, 2008 was \$38.2 million compared to \$55.6 million as of December 31, 2007. The decrease of \$17.4 million in our working capital balance was mainly due to a \$27.2 million increase in current liabilities due to the timing of payments at the quarter end and a \$10.9 million reduction in cash and cash equivalents which was used to support our capital investment and operations. This decrease was partially offset by an increase in accounts receivable of \$23.5 million due to increase in revenue and a timing of receipts at the quarter end. .

For investing activities, net cash outlay during the first quarter of 2008 was \$6.7 million, compared to \$8.9 million in the prior-year quarter, primarily related to capital expenditures and partial offset by a cash inflow from the sales of tangible and intangible assets.

For the three months ended March 30, 2008, there were no significant financing activities, consistent with the prior-year quarter.

Borrowings under the senior secured credit facility are subject to the satisfaction of certain conditions, including the representations and warranties being true in all material respects, compliance with the covenants included in the senior secured credit facility (including the financial covenants) and no default occurring or continuing on the date of the borrowing. The senior secured credit facility agreement contains certain customary covenants and restrictions for a facility of this type, including those with respect to the future maintenance and conduct of the business, the incurrence of debt or liens, the making of certain investments, and the consummation of sale/leaseback transactions, affiliate transactions, mergers and consolidations, asset sales, distributions and dividends on capital stock, and certain acquisitions. The senior secured credit facility also contains financial covenants including:

- maintaining a minimum coverage of interest expense;
- maintaining debt leverage below specified levels;
- maintaining a minimum level of consolidated EBITDA;
- maintaining a minimum level of liquidity; and
- limiting capital expenditures under specified thresholds.

On April 19, 2007, Moody's Investor Service, Inc. downgraded the ratings on our indebtedness. We may experience additional downgrades in our debt ratings, which may make it more difficult for us to obtain favorable interest rates and other terms on any new debt we may choose to incur in the future, including any new debt we may incur to refinance existing indebtedness. In the event any ratings downgrades are significant, we may choose not to incur new debt or refinance existing debt if we are unable to incur or refinance such debt at favorable interest rates or on favorable terms.

Capital Expenditures. For the three months ended March 30, 2008, capital expenditures were \$10.1 million, a \$1.8 million or 20.6% increase from \$8.3 million for the three months ended April 1, 2007. This increase was used to support capacity expansion and technology improvements at our fabrication facilities in anticipation of sales growth in future periods.

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Future Financing Activities. Our primary future capital requirements on a recurring basis will be funding research and development and capital expenditures, meeting required debt payments and funding working capital needs. We anticipate that our operating cash flows and available borrowings, if any, under our senior secured credit facility, will be sufficient to meet these capital requirements for the foreseeable future. We may from time to time also incur additional debt.

We may need to incur additional debt or issue equity to make strategic acquisitions of investments. There can be no assurance that any such financing will be available to us on acceptable terms, or that such financing will be available at all. Our senior secured credit facility and the indentures governing our notes restrict our ability to incur additional debt.

Seasonality

Our net sales are affected by market variations from quarter to quarter due to the business cycles, and resulting product demand, of our customers. Our Imaging and Display Solutions businesses typically experience demand increases in the third and fourth calendar quarters due to increased holiday demand for the consumer products that serve as the end markets for our products. During the first quarter, by contrast, consumer products manufacturers generally reduce orders in order to burn off excess inventory from the holiday season. In our Semiconductor Manufacturing Services business, the supply-demand cycle is usually one quarter ahead of the broader semiconductor market due to lead time from wafer input to shipment to our customers, so the demand for these products tends to peak in the third quarter and begin slowing in the fourth and first quarters.

Contractual Obligations

Summarized in the table below are estimates of future payments under debt obligations and minimum lease payment obligations at March 30, 2008. Changes in our business needs or interest rates, as well as actions by third parties and other factors, may cause these estimates to change. Because these estimates are complex and necessarily subjective, our actual payments in future periods are likely to vary from those presented in the table below.

	Payments Due by Period						Thereafter
	Total	2008	2009	2010	2011	2012	
Senior secured credit facility ⁽¹⁾⁽²⁾	\$ 80.3	\$80.3	\$ —	\$ —	\$ —	\$ —	\$ —
Notes ⁽¹⁾⁽³⁾	1,027.7	43.9	58.5	58.5	557.4	20.0	289.4
Operating lease	50.7	7.9	10.7	10.7	10.7	10.7	—
Others ⁽¹⁾	20.7	5.6	8.2	6.3	0.4	0.2	—

(1) Includes interest obligations thereon.

(2) Represents amounts outstanding under the senior secured credit facility.

(3) Includes interest obligations on the notes. For purposes of estimating the interest obligations under our Floating Rate Second Priority Senior Secured Notes, we used the average interest rate for such notes during the three months ended March 30, 2008.

The floating rate second priority senior secured notes of \$300 million and second priority senior secured notes of \$200 million mature in 2011, while the senior subordinated notes of \$250 million mature in 2014. Interest rates on these notes are 3 month LIBOR + 3.25%, 6 ⁷/₈% and 8%, respectively. We expect to pay the amounts outstanding under these notes in full upon maturity.

Each indenture governing the notes contains covenants that limit our ability and that of our subsidiaries to (1) incur additional indebtedness, (2) pay dividends or make other distributions on our capital stock or repurchase, repay or redeem our capital stock, (3) make certain investments, (4) incur liens, (5) enter into certain types of transactions with affiliates, (6) create restrictions on the payment of dividends or other amounts to us by our subsidiaries, and (7) sell all or substantially all of our assets or merge with or into other companies.

In November 2007, the lenders under our senior secured credit facility waived certain provisions of the credit agreement to permit us to consummate our proposed corporate reorganization and proposed public offering and to use the proceeds from the public offering as described in our registration statement. Upon consummation of the proposed corporate reorganization, MagnaChip Semiconductor Corporation will become a guarantor and grant a security interest with respect to the obligations under the senior secured credit facility.

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We adopted the provisions of FIN No. 48, *Accounting for Uncertainty in Income Taxes* on January 1, 2007. Our unrecognized tax benefits totaled \$1.7 million as of March 30, 2008. These unrecognized tax benefits have been excluded from the above table because we cannot estimate the period of cash settlement with the respective taxing authorities.

Off-Balance Sheet Arrangements

On December 23, 2004, two of our subsidiaries, MagnaChip Semiconductor S.A. and MagnaChip Semiconductor Finance Company entered into a senior secured credit agreement with a syndicate of banks, financial institutions and other entities providing for a \$100 million senior secured revolving credit facility. The undrawn portion of our senior secured credit facility as of March 30, 2008 and December 31, 2007 was \$9.8 million and \$4.5 million, respectively. The utilized portions of the credit facility are related to the issuance of letters of credit and cash drawdowns.

Other than the senior secured credit facility, we believe there are no material off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board (“FASB”) issued Statements of Financial Accounting Standards (“SFAS”) No. 141 (revised 2007), *“Business Combinations”* (“SFAS 141R”), which replaces FASB Statement No. 141. SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non controlling interest in the acquiree and the goodwill acquired. This Statement also establishes disclosure requirements which will enable users to evaluate the nature and financial effects of the business combination. SFAS 141R is effective as of the beginning of an entity’s fiscal year that begins after December 15, 2008. We are currently evaluating the potential impact, if any, of the adoption of SFAS 141R on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *“Noncontrolling Interests in Consolidated Financial Statement—amendments of ARB No. 51”* (“SFAS 160”). SFAS 160 states that accounting and reporting for minority interests will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS 160 also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. SFAS 160 applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary. This Statement is effective as of the beginning of an entity’s first fiscal year beginning after December 15, 2008. We are currently evaluating the potential impact, if any, of the adoption of SFAS 160 on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *“The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment of FASB Statement No. 115”* (“SFAS 159”), which permits all entities to choose to measure many financial instruments and certain other items at fair value and consequently report unrealized gains and losses on these items in earnings. SFAS 159 was effective for the Company’s fiscal year beginning January 1, 2008. The Company has not elected to adopt SFAS 159.

The Company adopted the provisions of SFAS No. 157, *“Fair Value Measurements”* (“SFAS 157”) on January 1, 2008. SFAS 157 defines fair value, establishes a market-based framework or hierarchy for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 is applicable whenever another accounting pronouncement requires or permits assets and liabilities to be measured at fair value. SFAS 157 does not expand or require any new fair value measures, however the application of this statement may change current practice. In February 2008, the FASB decided that an entity need not apply this standard to nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis until 2009. Accordingly, the Company’s adoption of this standard in 2008 was limited to financial assets and liabilities, which primarily affects the valuation of its derivative contract. The adoption of SFAS 157 did not have a material effect on the Company’s financial condition or results of operations. The Company is still in the process of evaluating this standard with respect to its effect on nonfinancial assets and liabilities and therefore has not yet determined the impact that it will have on its consolidated financial statements upon full adoption in 2009. Nonfinancial assets and liabilities for which the Company has not applied the provisions of FAS 157 include those measured at fair value in impairment testing and those initially measured at fair value in a business combination.

Critical Accounting Policies and Estimates

The preparation of our consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures regarding contingent assets and

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liabilities. 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 perceived 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.

We have defined a critical accounting estimate as one that is both important to the portrayal of either our financial condition or results of operations and requires us to make difficult, subjective or complex judgments or estimates about matters that are uncertain. We have discussed the development and selection of our critical accounting policies with the audit committee of our board, and the audit committee has reviewed the disclosure presented below. We believe that the following are the critical accounting estimates used in the preparation of our consolidated financial statements. In addition, there are other items within our consolidated financial statements that require estimation but which we do not deem to be critical.

Revenue Recognition and Account Receivables Valuation

Our revenue is primarily derived from the sale of semiconductor products which we design and the manufacture of semiconductor wafers for third parties. We recognize revenue when persuasive evidence of an arrangement exists, the product has been delivered and title and risk of loss have transferred, the price is fixed and determinable, and collection of resulting receivables is reasonably assured.

We recognize revenue upon shipment, upon delivery of the product at the customer's location or upon customer acceptance depending on terms of the arrangements, when the risks and rewards of ownership have passed to the customer. Specialty foundry services are performed pursuant to manufacturing agreements and purchase orders. Standard products are shipped and sold based upon purchase orders from customers. All amounts billed to a customer related to shipping and handling are classified as sales, while all costs incurred by us for shipping and handling are classified as expenses. We currently manufacture a substantial portion of our products internally at our wafer fabrication facilities. In the future, we expect to rely, to some extent, on outside wafer foundries for additional capacity and advanced technologies.

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make payment. If the financial condition of our customers were to deteriorate, additional allowances may be required. The establishment of reserves for sales discounts is based on management judgments that require significant estimates of a variety of factors, including forecasted demand, returns and industry pricing assumptions. We record warranty liabilities for the estimated costs that may be incurred under our limited warranty. This warranty covers product defects based on compliance with our specifications and is normally applicable for twelve months from the date of purchase. These liabilities are accrued when revenues are recognized. Warranty costs include the costs to replace the defective products. Factors that affect our warranty liability include historical and anticipated rates of warranty claims on those repairs and the cost per claim to satisfy our warranty obligations. As these factors are impacted by actual experience and future expectations, we periodically assess the adequacy of our recorded warranty liabilities and adjust the amounts as necessary.

Inventory Valuation

Inventories are valued at the lower of cost or market, using the average method which approximates the first in, first out method. Because of the cyclical nature of the semiconductor industry, changes in inventory levels, obsolescence of technology and product life cycles, we write down inventories to net realizable value. The difference in the carrying amount and the net realizable value is recognized as a loss on valuation of inventories within cost of sales. We estimate the net realizable value for such finished goods and work-in-progress based primarily upon the latest invoice prices and current market conditions.

We employ a variety of methodologies to determine the amount of inventory reserves necessary. While a portion of the reserve is determined via reference to the age of inventory and lower of cost or market calculations, an element of the reserve is subject to significant judgments made by us about future demand for our inventory. For example, reserves are established for excess inventory based on inventory levels in excess of six months of projected demand, as judged by management, for each specific product. If actual demand for our products is less than our estimates, additional reserves for existing inventories may need to be recorded in future periods.

In addition, as prescribed in SFAS No. 151, *Inventory Costs*, the cost of inventories is determined based on the normal capacity of each fabrication facility. If the capacity utilization is lower than a level that management believes to be normal, the fixed overhead costs per production unit which exceed those which would be incurred when the fabrication facilities are running under normal capacity are charged to cost of sales rather than capitalized as inventories.

Long-Lived Assets

We assess long-lived assets for impairment when events or changes in circumstances indicate that the carrying value of the assets or the asset group may not be recoverable. Factors that we consider in deciding when to perform an impairment review include significant under-performance of a business or product line in relation to expectations, significant negative industry or economic trends, and significant changes or planned changes in our use of the assets. Recoverability of assets that will continue to be used in our operations is measured by comparing the carrying amount of the asset group to our estimate of the related total future undiscounted net cash flows. If an asset group's carrying value is not recoverable through the related undiscounted cash flows, the asset group is considered to be impaired. The impairment is measured by the difference between the asset group's carrying amount and its fair value determined by either a quoted market price, if any, or a value determined by utilizing a discounted cash flow technique.

Impairments of long-lived assets are determined for groups of assets related to the lowest level of identifiable independent cash flows. We must make subjective judgments in determining the independent cash flows that can be related to specific asset groupings. Additionally, an evaluation of impairment of long-lived assets requires estimates of future operating results that are used in the preparation of the expected future undiscounted cash flows. Actual future operating results and the remaining economic lives of our long-lived assets could differ from the estimates used in assessing the recoverability of these assets.

Income Taxes

We account for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*. SFAS No. 109 requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in a company's financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement carrying amounts and the tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable for the period and the change during the period in deferred tax assets and liabilities.

We regularly review our deferred tax assets for recoverability considering historical profitability, projected future taxable income, the expected timing of the reversals of existing temporary differences and expiration of tax credits and net operating loss carryforwards. We established valuation allowances for deferred tax assets at most of our subsidiaries since, other than with respect to one particular subsidiary, it is not probable that a majority of the deferred tax assets will be realizable. The valuation allowance at this particular subsidiary was not established since it is more likely than not that the deferred tax assets at this subsidiary will be realizable based on the current prospects for its future taxable income.

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

In addition, beginning January 1, 2007, we account for uncertainties related to income taxes in compliance with FIN No 48, *Accounting for Uncertainty in Income Taxes*—an interpretation of SFAS No. 109. Under FIN No. 48, we evaluate our tax positions taken or expected to be taken in a tax return for recognition and measurement on our financial statements. Only those tax positions that meet the more likely than not threshold are recognized on the financial statements at the largest amount of benefit that is a greater than 50 percent likely of ultimately being realized.

Accounting for Unit-based Compensation

In 2006, we adopted SFAS No. 123(R) using the modified prospective application method and began to account for unit-based compensation based on a fair value method. Under the provisions of SFAS No. 123(R), unit-based compensation cost is estimated at the grant date based on the fair-value of the award and is recognized as expense over the requisite service period of the award. Consistent with our prior-period pro forma presentation under SFAS No. 123, we use the Black-Scholes option pricing model to value unit options. In developing assumptions for fair value calculation under SFAS No. 123(R), we use estimates based on historical data and market information. A small change in the assumptions used in the estimate can cause a relatively significant change in the fair value calculation.

The determination of the fair value of our common units on each grant date was a two-step process. First, management estimated our enterprise value in consultation with such advisers as we deemed appropriate. Second, this business enterprise value was allocated to all sources of capital invested in us based on each type of security's respective rights and claims to our total business enterprise value. This allocation included a calculation of the fair value of our common units on a non-marketable, minority basis. The business enterprise value was determined based on an income approach and a market approach using the revenue multiples of comparable companies, giving appropriate weight to each approach. The income approach was based on the discounted cash flow method and an estimated weighted average cost of capital. The estimated fair value of our common units was calculated using an option pricing model, using the enterprise value, an estimated volatility, expected exercise term and a risk free interest rate.

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Determination of the fair value of our common units involves complex and subjective judgments regarding projected financial and operating results, our unique business risks, the liquidity of our units and our operating history and prospects at the time of grant. If we make different judgments or adopt different assumptions, material differences could result in the amount of the share-based compensation expenses recorded because the estimated fair value of the underlying units for the options granted would be different.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Foreign Currency Risk. We have exposure to foreign currency exchange-rate fluctuations on net income from our subsidiaries denominated in currencies other than U.S. dollars, as our foreign subsidiaries in Korea, Taiwan, China, Japan and Hong Kong use local currency as their functional currency. From time to time these subsidiaries have cash and financial instruments in local currency. The amounts held in Japan, Taiwan, Hong Kong and China are not material in regards to foreign currency movements. However, based on the cash and financial instruments balance at March 30, 2008 for our Korean subsidiary, a 10% devaluation of the Korean won against the U.S. dollar would have resulted in a decrease of \$1.2 million in our U.S. dollar financial instruments balance and cash balance. Based on the Japanese yen cash balance at March 30, 2008, a 10% devaluation of the Japanese yen against the U.S. dollar would have resulted in a decrease of \$39 thousand in our U.S. dollar cash balance.

Interest Rate Risk. The \$200 million 6 ⁷/₈% second priority senior secured notes due 2011 and the \$250 million 8% senior subordinated notes due 2014 are subject to changes in fair value due to interest rate changes. If the market interest rate had decreased by 10% and all other variables were held constant from their levels at March 30, 2008, we estimate that we would have additional interest expense costs over the market rate of \$2.9 million (on a 360-day basis). The fair value of these fixed rate notes would have decreased by \$6.6 million or increased by \$6.8 million with a 10% increase or decrease in the interest rate, respectively.

Cash Flow Interest Rate Risk. In 2005, we entered into an interest rate swap agreement to convert the variable interest rate on our floating rate second priority senior secured notes to a fixed interest rate for the periods to maturity date of June 2008. Pursuant to this interest rate swap and during the duration of such swap, cash flow interest rate risk was replaced with exposure to interest rate risk.

Item 4T. Controls and Procedures

Disclosure Controls and Procedures

As required by the Securities Exchange Act of 1934, as amended, or the Exchange Act, our management, including our Chief Executive Officer, or our CEO, and our Chief Financial Officer, or our CFO, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. As defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act, disclosure controls and procedures are controls and other procedures that we use that are designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our CEO and our CFO, as appropriate, to allow timely decisions regarding required disclosure. Management necessarily applies its judgment in evaluation the cost-benefit relationship of possible controls and procedures.

Based upon that evaluation, our CEO and our CFO concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

Inherent Limitations on Effectiveness of Controls

Our management, including our CEO and CFO, does not expect that our disclosure controls and procedures will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the

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inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

Changes in Internal Control Over Financial Reporting

There has been no change in our internal control over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1A. Risk Factors

You should carefully consider the risk factors set forth below as well as the other information contained in this report. Any of the following risks could materially and adversely affect our business, financial condition or results of operations. Additional risks and uncertainties not currently known to us or those currently viewed by us to be immaterial may also materially and adversely affect our business, financial condition or results of operations.

The cyclical nature of the semiconductor industry may limit our ability to maintain or increase net sales and operating results during industry downturns.

The semiconductor industry is highly cyclical and periodically experiences significant economic downturns characterized by diminished product demand, resulting in production overcapacity and excess inventory in the markets we serve. A downturn can result in lower unit volumes and rapid erosion of average selling prices. The semiconductor industry has experienced significant downturns, often in connection with, or in anticipation of, maturing product cycles of both semiconductor companies' and their customers' products or a decline in general economic conditions. We have experienced these conditions in our business in the past and may experience renewed, and possibly more severe and prolonged, downturns in the future as a result of such cyclical changes. This may reduce our results of operations and the value of our business.

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

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

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

Our customers may cancel their orders, reduce quantities or delay production.

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

We depend on high utilization of our manufacturing capacity.

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

A significant portion of our sales comes from a relatively limited number of customers.

Historically, we have relied on a limited number of customers for a substantial portion of our total revenue. If we were to lose key customers or if customers cease to place orders for our high volume products or services, our financial results would be adversely affected. While we served more than 160 customers in the quarter ended March 30, 2008, net sales to our 10 largest customers represented approximately 62.8% of our net sales for the period. One customer represented greater than 10% of our net sales during the quarter ended March 30, 2008. Significant reductions in sales to any of these customers, the loss of major customers or a general curtailment in orders for our high volume products or services within a short period of time would adversely affect our business.

Our industry is highly competitive.

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

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

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

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

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

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

Changes in demand for consumer electronics, including digital televisions, notebook computers, flat panel displays and mobile phones, and products in our other end markets can impact our results of operations.

Demand for our products will depend in part on the changes in demand for various consumer electronics products, including digital televisions, notebook computers, flat panel displays and mobile phones, and electronics products in our other end markets and on general economic growth. To the extent that we cannot offset periods of reduced demand that may occur in these markets through greater penetration of these markets or reduction in our production and costs, our sales and gross profit may decline, which would negatively impact our business, financial condition and results of operations.

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

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

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

Customer and market requirements can change during the development process. There is a risk that these developments and enhancements will be late, fail to meet customer or market specifications or not be competitive with products or services from our competitors that offer comparable or superior performance and functionality. For example, net sales generated in 2006 by our Imaging Solutions business decreased \$102.8 million, or 63%, compared to net sales generated by that business in 2005. This decrease was primarily attributable to delays in transitioning to new megapixel products. We have begun marketing a new line of power management solutions that we intend to sell to our customers in 2008. Any new products, such as our new power management solutions, or product or service enhancements may not be accepted in new or existing markets. Our business will suffer if we fail to develop and introduce new products and services or product and service enhancements on a timely and cost-effective basis.

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

We expend considerable resources to achieve design wins for our semiconductor products, especially our new products and product enhancements. Once a customer designs a semiconductor into a product, that customer is likely to continue to use the same semiconductor or enhanced versions of that semiconductor from the same supplier across a number of similar and successor products for a lengthy period of time due to the significant costs associated with qualifying a new supplier and potentially redesigning the product to incorporate a different semiconductor. If we fail to achieve an initial design win in a customer's qualification process, we may lose the opportunity for significant sales to that customer for a number of products and for a lengthy period of time. This may cause us to be unable to recoup our investments in our semiconductor products, which would harm our business.

We have lengthy and expensive design-to-mass production and manufacturing process development cycles.

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

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

We face numerous challenges relating to executing our growth strategy.

As part of our growth strategy, we have begun marketing a new line of power management semiconductor products and expect to introduce other new products and services in the future. If we are unable to execute our growth strategy effectively, we may not be able to take advantage of market opportunities, execute our business plan or respond to competitive pressures. Moreover, if our allocation of resources does not correspond with future demand for particular products, we could miss market opportunities, and our business and financial results could be materially and adversely affected.

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

Our key executives have substantial experience and have made significant contributions to our business, and our continued success is dependent upon the retention of our key management executives, including our Chief Executive Officer and Chairman, Sang Park, and our President and Chief Financial Officer, Robert Krakauer, as well as the services provided by our engineers and a number of other key managerial, marketing, planning, financial, technical and operations personnel. The loss of such key personnel would have a material adverse effect on our business. Growth in our business is dependent, to a large degree, on our ability to retain and attract such employees. In addition, we depend on our ability to attract and retain skilled technical and managerial personnel. We could lose the services of, or fail to recruit, skilled personnel. This could hinder our research and product development programs or otherwise have a material adverse effect on our business.

We have a history of losses and may not become profitable in the future.

Since we began operations as a separate entity in 2004, we have not generated a profit and have generated significant net losses. As of March 30, 2008, we had an accumulated deficit of approximately \$635.5 million and negative unitholders' equity. To become profitable, we will need to generate and sustain substantially higher revenue while maintaining or reducing expenses. We currently expect to incur higher expenses in each of the next several quarters to support increased research and development and sales and marketing efforts. These expenditures may not result in increased revenue or an increase in the number of customers immediately or at all. Because many of our expenses are fixed in the short term, or are incurred in advance of anticipated sales, we may not be able to decrease our expenses in a timely manner to offset any shortfall of sales. If we become profitable, we may not be able to sustain or increase profitability on a quarterly or an annual basis.

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

As of March 30, 2008, approximately 59.7% of our employees were represented by the MagnaChip Semiconductor Labor Union, which is a member of the Federation of Korean Metal Workers Trade Unions. We can offer no assurance that issues with the labor union and other employees will be resolved favorably for us in the future, that we will not experience work stoppages or other labor problems in future years or that we will not incur significant expenses related to such issues.

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

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

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

The manufacture of semiconductors requires precision, a highly regulated and sterile environment and specialized equipment. We may have difficulty achieving acceptable yields in the manufacture of our products or those of our semiconductor manufacturing services customers, which could lead to higher costs, a loss of customers or delay in market acceptance of our products. Slight impurities or defects in the photomasks used to print circuits on a wafer or other factors can cause significant difficulties, particularly in connection with the production of a new product, the adoption of a new manufacturing process or any expansion of our manufacturing capacity and related transitions. Yields below our target levels can negatively impact our gross profit and may cause us to eliminate underperforming products.

We rely on a number of independent subcontractors.

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

We depend on successful parts and materials procurement for our manufacturing processes.

We use a wide range of parts and materials in the production of our semiconductors, including silicon, processing chemicals, processing gasses, precious metals and electronic and mechanical components. We procure materials and electronic and mechanical components from international sources and original equipment manufacturers. From time to time in the past, the supply of polysilicon available for use in the manufacture of semiconductor products has been constrained, and we may confront similar constraints in the future. If we cannot obtain adequate materials in a timely manner or on favorable terms for the manufacture of our products, revenues and results of operations will decline.

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

Our semiconductors are incorporated into a number of end products, and our business is exposed to product return and liability risk and the risk of negative publicity if our products fail. Although we maintain insurance for product liability claims, the amount and scope of our insurance may not be adequate to cover a product liability claim that is asserted against us. In addition, product liability insurance could become more expensive and difficult to maintain and, in the future, may not be available on commercially reasonable terms, or at all.

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

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

Our company organizational structure is based on assumptions about the various tax laws, including withholding tax, and other laws of applicable non-U.S. jurisdictions. In addition, our Korean subsidiary, MagnaChip Semiconductor, Ltd., or MagnaChip Korea, was granted a limited tax holiday under Korean law in October 2004. This grant provides for certain tax exemptions for corporate taxes, withholding taxes, acquisition taxes, property and land use taxes and other taxes until December 31, 2008. In addition, we do not expect the income of our foreign subsidiaries to be subject to taxation in the United States by reason of the "Subpart F" regime. Our interpretations and conclusions regarding tax and other laws are not binding on any taxing authority and, if these assumptions and conclusions are incorrect, if our business were to be operated in a way that rendered us ineligible for tax exemptions or to become subject to incremental tax, or if the authorities were to change or modify the relevant laws, we could suffer adverse tax and other financial consequences or have the anticipated benefits of our organizational structure materially impaired.

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

We seek to protect our proprietary technologies and know-how through the use of patents, trade secrets, confidentiality agreements and other security measures. The process of seeking patent protection takes a long time and is expensive. There can be no assurance that patents will issue from pending or future applications or that, if patents issue, they will not be challenged, invalidated or circumvented, or that the rights granted under the patents will provide us with meaningful protection or any commercial advantage. Some of our technologies are not covered by any patent or patent application. The confidentiality agreements on which we rely to protect these technologies may be breached and may not be adequate to protect our proprietary technologies. There can be no assurance that other countries in which we market our services will protect our intellectual property rights to the same extent as the United States.

Our ability to compete successfully depends on our ability to operate without infringing the proprietary rights of others. We have no means of knowing what patent applications have been filed in the United States until they are published. In

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addition, the semiconductor industry is characterized by frequent litigation regarding patent and other intellectual property rights. We may need to file lawsuits to enforce our patents or intellectual property rights, and we may need to defend against claimed infringement of the rights of others. Any litigation could result in substantial costs to us and divert our resources. Despite our efforts in bringing or defending lawsuits, we may not be able to prevent third parties from infringing upon or misappropriating our intellectual property. In the event of an adverse outcome in any such litigation, we may be required to:

- pay substantial damages, indemnify customers or licensees for damages they may suffer if the products they purchase from us or the technology they license from us violate the intellectual property rights of others;
- stop our manufacture, use, sale or importation of infringing products; expend significant resources to develop or acquire non-infringing technologies;
- discontinue processes; or
- obtain licenses to the intellectual property we are found to have infringed.

There can be no assurance that we would be successful in such development or acquisition or that such licenses would be available under reasonable terms, or at all.

Our competitors may develop, patent or gain access to know-how and technology similar to our own. In addition, many of our patents are subject to cross licenses, several of which are with our competitors. The noncompetition arrangement agreed to by Hynix in connection with our acquisition from Hynix, or the Original Acquisition, expired on October 1, 2007. Under that arrangement, Hynix retained a perpetual license to use the intellectual property that we acquired from Hynix in the Original Acquisition. Now that these noncompetition restrictions have expired, Hynix and its subsidiaries are free to develop products that may incorporate or embody intellectual property developed by us prior to October 2004.

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

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

We may need additional capital in the future, and such capital may not be available on acceptable terms or at all.

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

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

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

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

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

We are subject to risks associated with currency fluctuations.

Our net sales are primarily denominated in U.S. dollars, as well as various other currencies, including the Korean won, Japanese yen and euro. As a result, changes in the exchange rates of these currencies or any other applicable currencies to the U.S. dollar will affect the translated price of products and therefore operating margins and could result in exchange losses. Conversely, during 2007, more than 60% of our costs were denominated in Korean won and, to a lesser extent, in Japanese yen, U.S. dollars and euros. Therefore, changes in the exchange rates of these currencies or any other applicable currencies to the U.S. dollar will affect our cost of goods sold and operating margins and could result in exchange losses. As a result, a material decline in the U.S. dollar relative to the Korean won will result in an increase in our costs as a proportion of our net sales, thereby reducing our operating margins.

We cannot fully predict the impact of future exchange rate fluctuations on our profitability. We have not engaged in exchange rate hedging since the Original Acquisition. From time to time, we may engage in exchange rate hedging activities in an effort to mitigate the impact of exchange rate fluctuations. However, there can be no assurance that any hedging technique we implement will be effective. If such hedging is not effective, we may experience reduced operating margins.

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

As of March 30, 2008, our total indebtedness representing long and short-term borrowings, including the current portion of long-term borrowings, was approximately \$830 million. Our substantial debt could have important consequences, including:

- increasing our vulnerability to general economic and industry conditions;
- requiring a substantial portion of our cash flow from operations to be dedicated to the payment of principal and interest on our indebtedness, therefore reducing our ability to use our cash flow to fund our operations, capital expenditures and future business opportunities;
- exposing us to the risk of increased interest rates because some of our borrowings are at variable rates of interest;
- limiting our ability to obtain additional financing for working capital, capital expenditures, debt service requirements, acquisitions and general corporate or other purposes; and
- limiting our ability to adjust to changing market conditions and placing us at a competitive disadvantage compared to our competitors who have less debt.

Our ability to make scheduled payments on or to refinance our debt obligations depends on our financial condition and operating performance, which is subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. There can be no assurance that we will generate a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness. For example, in 2006 our cash interest expense exceeded the cash generated from our operating activities, and in 2007 our cash flow from operating activities was negative and did not cover any of our interest expense.

On April 19, 2007, Moody's Investor Service, Inc. downgraded the ratings on our indebtedness. The credit ratings assigned to our debt reflect the rating agency's opinion of our ability to make payments on the debt obligations when such payments are due. A rating may be subject to revision or withdrawal at any time by the assigning rating agency. We may experience downgrades in our debt ratings in the future, which may make it more difficult for us to obtain favorable interest rates and other terms on any new debt we may choose to incur in the future, including any new debt we may incur to refinance existing indebtedness. In the event any ratings downgrades are significant, we may choose not to incur new debt or refinance existing debt if we are unable to incur or refinance such debt at favorable interest rates or on favorable terms.

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

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

Because we share certain facilities with Hynix, several services that are essential to our business are provided to us by or through Hynix. These services include electricity, bulk gasses and de-ionized water, campus facilities, wastewater and sewage management, and environmental safety. If any of our agreements with Hynix were terminated or if Hynix were unwilling or unable to fulfill its obligations to us under the terms of these agreements, we would have to procure these services on our own and as a result may experience an increase in our expenses.

In addition, we lease building and warehouse space from Hynix in Cheongju, Korea, and lease to Hynix some of the space we own in Cheongju, Korea. If Hynix were to become insolvent, we could lose our leases on some of our building and warehouse space.

Investor confidence may be adversely impacted if we are unable to comply with Section 404 of the Sarbanes-Oxley Act of 2002.

We are subject to rules adopted by the SEC pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, which require us to include in our Annual Report on Form 10-K our management's report on, and assessment of the effectiveness of, our internal controls over financial reporting. Beginning with our fiscal year ending December 31, 2008, our independent auditors will be required to attest to and report on the effectiveness of our internal controls over financial reporting. If we fail to achieve and maintain the adequacy of our internal controls, there is a risk that we will not comply with all of the requirements imposed by Section 404. Moreover, effective internal controls, particularly those related to revenue recognition, are necessary for us to produce reliable financial reports and are important to helping prevent financial fraud. Any of these possible outcomes could result in an adverse reaction in the financial marketplace due to a loss of investor confidence in the reliability of our financial statements and could result in investigations or sanctions by the SEC, the applicable securities exchange on which our securities are listed or other regulatory authorities or in securityholder litigation. Any of these factors ultimately could harm our business and could negatively impact the market price of our securities. Ineffective control over financial reporting could also cause investors to lose confidence in our reported financial information, which could adversely affect the trading price of our securities.

Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives. However, our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

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

During industry downturns and for other reasons, we may need to record impairment or restructuring charges. From the Original Acquisition in October 2004 through March 30, 2008, we recognized aggregate restructuring and impairment charges of \$141.7 million, which consisted of \$136.5 million of impairment charges and \$5.2 million of restructuring charges. In the future, we may need to record additional impairment charges or to further restructure our business and incur additional restructuring charges, any of which could have a material adverse effect on our results of operations or financial condition.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

On February 19, 2008, two of our former employees exercised options to acquire 11,375 of our common units at an aggregate purchase price of \$20,890.00. Because the offering transactions took place outside the U.S. and the optionees were not U.S. persons, the issuance of these securities was exempt from registration under Regulation S.

On March 12, 2008, one of our former employees exercised options to acquire 2,437.50 of our common units at a purchase price of \$7,312.50. Because the offering transaction took place outside the U.S. and the optionee was not a U.S. person, the issuance of these securities was exempt from registration under Regulation S.

Item 5(a). Other Information.

Effective May 8, 2008, MagnaChip Semiconductor, Ltd. (the "Subsidiary"), our subsidiary, entered into an Amended and Restated Service Agreement (the "Park Restated Agreement") with Sang Park, who serves as our Chief Executive Officer and Chairman. The Park Restated Agreement amends the initial Service Agreement entered into between Mr. Park and the Subsidiary as of May 27, 2006, to provide for (A) the payment of an additional one-time performance bonus of \$900,000 on the earlier of (i) June 30, 2009 or (ii) the date (but not before January 1, 2009) which is six months after the closing of the first to occur of a change of control or first public offering of our equity securities, (B) certain expatriate, repatriation and international service benefits, (C) continued participation in our benefit plans for up to two years after any involuntary termination, and (D) additional provisions related to compliance with Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"). The foregoing description is qualified in its entirety by reference to the Park Restated Agreement, a copy of which is filed as Exhibit 10.36a to this report and incorporated herein by reference.

Effective May 8, 2008, the Subsidiary entered into an Amended and Restated Service Agreement (the "Krakauer Restated Agreement") with Robert Krakauer, who serves as our President, Chief Financial Officer, and General Manager, Imaging Solutions Division. The Krakauer Restated Agreement amends the initial Service Agreement entered into between Mr. Krakauer and the Subsidiary as of October 6, 2004, to provide for (A) the payment of the full eligible annual incentive bonus for 2007, less any amount of the annual incentive previously paid, (B) the payment of an additional one-time performance bonus of \$750,000 on the earlier of (i) June 30, 2009 or (ii) the date (but not before January 1, 2009) which is six months after the closing of the first to occur of a change of control or first public offering of our equity securities, (C) vesting of restricted units such that vested units will not be subject to forfeiture to or repurchase by us, and (D) additional provisions related to compliance with Section 409A of the Code. The foregoing description is qualified in its entirety by reference to the Krakauer Restated Agreement, a copy of which is filed as Exhibit 10.19a to this report and incorporated herein by reference.

Item 6. Exhibits.

Exhibit Number	Description
10.19a	Amended and Restated Service Agreement, dated as of May 8, 2008, by and between MagnaChip Semiconductor, Ltd. (Korea) and Robert Krakauer
10.36a	Amended and Restated Service Agreement, dated as of May 8, 2008, by and between MagnaChip Semiconductor, Ltd. (Korea) and Sang Park
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 Chief 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.

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 LLC

Dated: May 13, 2008

By: /s/ Sang Park

Sang Park
Chief Executive Officer and Chairman

Dated: May 13, 2008

By: /s/ Robert J. Krakauer

Robert J. Krakauer
President and Chief Financial Officer

INDEX TO EXHIBITS

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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.

**AMENDED AND RESTATED
SERVICE AGREEMENT**

THIS AMENDED AND RESTATED SERVICE AGREEMENT (the "Agreement") is dated as of this 8th day of May 2008 (the "Effective Date") by and between MagnaChip Semiconductor, Ltd., a Korean limited liability company (the "Company"), and Robert Krakauer, an individual (the "Officer").

W I T N E S S E T H:

WHEREAS, the Company and the Officer entered into a Service Agreement, dated as of October 6, 2004, (the "Original Agreement") pursuant to which the Officer has been employed by the Company as its Chief Financial Officer, Chief Administrative Officer and Senior Vice President of Strategic Operations, and is currently employed as its President, Chief Financial Officer, and General Manager, Imaging Solutions Division; and

WHEREAS, the Company desires to continue to have the benefits of the Officer's knowledge and experience as a full-time officer and to employ the Officer in the manner hereinafter specified and to make provision for payment of reasonable compensation to the Officer for such services, and the Officer is willing to continue to be employed by the Company to perform the duties incident to such employment upon the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the foregoing premises, the mutual covenants, terms and conditions set forth herein, and other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby and restate the Original Agreement as this Amended and Restated Service Agreement as follows:

1. EFFECTIVENESS OF AGREEMENT

This Agreement shall constitute a binding obligation of the Officer and the Company upon the execution of this Agreement.

2. EMPLOYMENT AND DUTIES

(a) General. Effective as of the closing under the Business Transfer Agreement, dated as of June 12, 2004, by and between Hynix Semiconductor, Inc. and System Semiconductor, Ltd. (the "Original Effective Date"), the Company has employed the Officer as Chief Financial Officer, Chief Administrative Officer and Senior Vice President of Strategic Operations of the Company and currently employs the Officer as its President, Chief Financial Officer, and General Manager, Imaging Solutions Division. From the Effective Date, the Company shall continue to employ the Officer as President, Chief Financial Officer, and General Manager, Imaging Solutions Division, of the Company, and the Officer agrees upon the terms and conditions herein set forth to be employed by the Company. The Officer shall diligently perform such duties and have such responsibilities as the Board of Directors of the Company (the "Board") may establish from time to time, and the Officer shall report to the Chief Executive Officer and the Board.

(b) Term. Unless terminated at an earlier date in accordance with Section 4 hereof, the term of the Officer's employment with the Company the Original Agreement and continuing under this Agreement shall be for a term commencing on the Original Effective Date and ending on the third anniversary of the Original Effective Date (the "Initial Term"). Thereafter, unless terminated at an earlier date in accordance with Section 4 hereof, the Initial Term and each Additional Term shall be automatically extended for successive one-year periods (each, an "Additional Term"), in each case, commencing upon the expiration of the Initial Term or the then current Additional Term, unless at least 90 days prior to the expiration of such term, either party gives written notice to the other party of its intention not to extend the term of the Officer's employment.

(c) Services. The Officer shall well and faithfully serve the Company, and shall devote all of his business time and attention to the performance of the duties of such employment and the advancement of the best interests of the Company and shall not, directly or indirectly, render services to any other person or organization for which the Officer receives compensation without the prior written approval of the Company. The Officer hereby agrees to refrain from engaging in any activity that does, shall or could reasonably be deemed to conflict with the best interests of the Company. The Officer shall be entitled to serve on a maximum of two other company boards of directors, provided those companies are not competitors of the Company and the Company shall make reasonable accommodation for travel and service in connection with these outside boards of directors.

(d) Location of Employment. The Officer's place of employment shall be at the Company's facility located in Seoul, Korea and such other places as determined by the Officer in consultation with the Board.

3. COMPENSATION AND OTHER BENEFITS

Subject to the provisions of this Agreement, including, without limitation, the termination provisions contained in Section 4, the Company shall pay and provide the following compensation and other benefits to the Officer as compensation for all services rendered hereunder:

(a) Salary. The Company shall pay the Officer a base salary at the rate of US\$375,000.00 per annum (the "Salary"), payable to the Officer in accordance with the standard payroll practices of the Company as are in effect from time to time, less all such deductions or withholdings required by applicable law. Annual increases in Salary will be determined by the compensation committee of the Board (the "Committee") in accordance with the Committee's policies and procedures.

(b) Bonuses.

(i) Annual Incentive. The Officer shall be eligible to earn an annual cash bonus (the "Annual Incentive") equal to 100% of the Officer's annual Salary as in effect for the performance year to which the Annual Incentive pertains, subject to satisfaction of the applicable performance objectives established by the Committee and the continuous employment of the Officer through the date of payment of the Annual Incentive; provided, however, that upon execution of this Agreement, the Officer shall receive the full eligible Annual Incentive for 2007, less any amount of the Annual Incentive previously paid. Notwithstanding the foregoing, for the 2009 annual bonus plan year only, the amount of the Annual Incentive determined by the Committee to be otherwise payable to the Officer for the plan year ending in 2009 on the basis of the actual achievement by the Company of the performance objectives applicable to such plan year shall be paid on a pro rata basis determined by the number of days the Officer was actually employed during the 2009 plan year in the event that the Officer's employment with the Company terminates prior to the end of the 2009 plan year; provided, however, that no Annual Incentive shall be paid pursuant to this Section to the Officer with respect to the 2009 plan year in the event that the Officer becomes entitled (without regard to the requirement of an effective release of claims pursuant to Section 4(g)) to a payment pursuant to Section 4(b)(i)(3), Section 4(c)(iii) or Section 4(d)(iii). Any Annual Incentive earned by the Officer shall be paid in accordance with the terms of the applicable plans and policies of the Company following the determination by the Committee of the extent of achievement of the applicable performance objectives, but in any event no earlier than January 1 or later than March 15 of the year following the applicable plan year.

(ii) Performance Bonus. The Officer shall be paid an additional, one-time cash bonus (the "Performance Bonus") in an amount equal to US\$750,000 on the earlier of (A) June 30,

2009 or (B) the date (but not before January 1, 2009) which is six months after a closing of the first to occur of a “Change of Control” or the Company’s “First Public Offering” (as such terms are defined in that certain Second Amended and Restated Securityholders’ Agreement dated as of October 6, 2004 among MagnaChip Semiconductor LLC and the other signatories thereto, as amended from time to time), provided the Officer remains in continuous employment with the Company through the applicable date.

(c) Expatriate Benefits.

(i) Reimbursements and In-kind Benefits. Except as otherwise provided in Section 4, during the term of this Agreement, the Officer shall be entitled to the expatriate, repatriation, and international service benefits that are described in Schedule A attached hereto. Any reimbursement or in-kind benefit the Officer is entitled to receive pursuant to Schedule A shall (A) be paid no later than the last day of the Officer’s taxable year following the taxable year in which the expense was incurred, (B) not be affected by the amount of expenses eligible for reimbursement or in-kind benefits provided in any other taxable year, and (C) not be subject to liquidation or exchange for another benefit.

(ii) Gross-Up Payments. To the extent that any reimbursements, stipends, or in-kind benefits provided under Section 3(c)(i) are taxable in the U.S. or Korea, such reimbursements or in-kind benefits shall be “grossed up” or increased to take into account any such tax liability incurred by the Officer as a result of such reimbursement or in-kind benefit. In determining the amount of any tax liability incurred by the Officer, the Officer shall minimize U.S. taxes as permitted by Section 911 (relating to exclusions from gross income of certain foreign earned income and housing costs) of the Internal Revenue Code of 1986, as amended (the “Code”) and Section 901 (relating to the foreign tax credit) of the Code. The payment pursuant to this Section 3(c)(ii) (the “Gross-Up Payment”) shall be in an amount equal to the U.S. federal, state, local and foreign taxes imposed on the Officer as a result of the benefits provided pursuant to Section 3(c)(i), including the amount of additional taxes imposed on the Officer as a result of the Company’s reimbursement of taxes pursuant to this Section 3(c)(ii). The Company shall pay the Gross-Up Payment to the Officer no later than the last day of the Officer’s taxable year following the taxable year in which the Officer remits the applicable tax.

(d) Expenses. The Company shall pay or reimburse the Officer for all reasonable out-of-pocket expenses incurred by the Officer in connection with his employment hereunder upon submission of appropriate documentation or receipts in accordance with the policies and procedures of the Company as are in effect from time to time. Any reimbursement or expense payment the Officer is entitled to receive pursuant to this Section 3(d) shall (i) be paid no later than the last day of Executive’s taxable year following the taxable year in which the expense was incurred, (ii) not be affected by the amount of expenses eligible for reimbursement or payment in any other taxable year and (iii) not be subject to liquidation or exchange for another benefit.

(e) Benefits. The Officer shall be eligible to participate in or purchase as necessary and be reimbursed for medical, disability and life insurance plans and to receive other benefits applicable to senior officers of the Company generally in accordance with the terms of such plans as are in effect from time to time. While serving in an expatriate status, the Officer shall be entitled to the health and life insurance coverage listed on Schedule A.

(f) Vacation. The Officer shall be entitled to annual vacation of four weeks per year.

(g) Co-investment right. For ninety days following the Original Effective Date, the Officer shall have the right to invest up to US\$1,000,000 in the equity of MagnaChip Semiconductor LLC, a Delaware limited liability company (“MagnaChip LLC”), at the same price per unit as that paid by Citicorp Venture Capital Equity Partners, L.P. (“CVC”) and with respect to the same strip of equity securities being acquired by CVC.

(h) Equity.

(i) Promptly following the closing of the Business Transfer Agreement, the Officer shall be granted options immediately exercisable for 677,293 restricted Common Units of MagnaChip LLC (the "Initial Options") at a purchase price equal to \$1.00 per Common Unit. The restricted Common Units issued upon the exercise of the Initial Options (the "Initial Promote Units"), shall be subject to restrictions contained in an equity incentive plan to be approved by MagnaChip LLC (the "Incentive Plan"). Upon the exercise of the Initial Options by the Officer, the Company shall pay the Officer a bonus, which the Officer agrees will be retained by the Company in satisfaction of the exercise price of the Initial Options. In connection with the payment of the bonus described in the preceding sentence, the Company shall pay the Officer US\$380,977.14 to cover U.S. federal withholding relating to such bonus. The Officer hereby authorizes and directs the Company to withhold the full amount of such payment to satisfy such withholding requirements.

(ii) Following the closing of the Business Transfer Agreement but no sooner than the 91st day after the closing, the Officer shall be granted an option to purchase the number of restricted Common Units equal to the difference between the number of Initial Promote Units and the number of units representing 1.25% of the value of MagnaChip LLC's Common Units outstanding on such date, after giving effect to the exercise of such options and to options provided to Dr. Youm Huh under a corresponding provision in his employment agreement, but prior to giving effect to the exercise of any other warrants or options granted by the Company, including the warrant held by Hynix Semiconductor Inc. and employee options, whether or not then exercisable or exercised (the "Incremental Options," and the restricted Common Units issued upon exercise of the Incremental Options shall be "Incremental Promote Units"), at a purchase price equal to US\$1.00 per Common Unit.

(iii) Any Initial Promote Units or Incremental Promote Units (together, the "Promote Units") remaining unvested on the date of the Officer's termination of employment with Company for any reason or no reason shall be subject to forfeiture or to repurchase by the Company as follows and otherwise in accordance with the terms of the Incentive Plan: (A) unvested Initial Promote Units shall be subject to forfeiture to the Company and (B) unvested Incremental Promote Units shall be subject to repurchase by the Company at a repurchase price of US\$1.00 per Unit. Vested Promote Units shall not be subject to forfeiture to or repurchase by the Company. The Promote Units shall vest in accordance with the schedule set forth in the Incentive Plan, but generally 25% of the covered units shall be scheduled to vest on the first anniversary of the Officer's purchase of the Promote Units and an additional 6.25% of the covered units shall be scheduled to vest each calendar quarter thereafter. The Promote Units shall vest in full upon a Change of Control of the Company after which the Officer is no longer the Chief Financial Officer. On any scheduled vesting date, the Promote Units shall vest only if the Officer is still employed by the Company (except as otherwise provided in this Agreement).

4. TERMINATION OF EMPLOYMENT

Subject to the notice and other provisions of this Section 4, the Company shall have the right to terminate the Officer's employment hereunder, at any time for any reason or for no stated reason, and the Officer shall have the right to resign, at any time for any reason or for no stated reason.

(a) Termination for Cause or Resignation Other Than for Good Reason.

(i) If, prior to the expiration of the Initial Term or any Additional Term, the Officer's employment is terminated by the Company for "Cause" (as hereinafter defined) or if the

Officer resigns for any reason other than Good Reason (as hereinafter defined) from his employment hereunder, the Officer shall be entitled to payment of (A) his Salary accrued up to and including the date of termination or resignation, (B) for the applicable 2009 plan year only, any Annual Incentive earned in accordance with Section 3(b)(i) through the date of termination or resignation, and (C) any unreimbursed expenses. Except as required by Section 4(a)(ii) below and except to the extent required by the terms of the benefits provided under Section 3(e) or applicable law, the Officer shall have no right under this Agreement or otherwise to receive any other compensation, including, without limitation, any Annual Incentive or Performance Bonus which has not been paid prior to the date of such termination or resignation, or to participate in any other plan, program or arrangement after such termination or resignation of employment with respect to the year of such termination or resignation and later years. The treatment of any outstanding options held by the Officer as of the date of the termination shall be governed by the option agreements and option plans pursuant to which the options were granted.

(ii) Subject to Section 4(g) below, in the event of the Officer's resignation from employment with the Company for any reason other than "Good Reason," as defined below (but not in the event of the Officer's termination of employment by the Company for Cause) and provided that the Officer elects to receive coverage for medical benefits under the Consolidated Omnibus Budget Reconciliation Act of 1985 ("COBRA Coverage"), the Company shall pay the cost of the COBRA Coverage for the Officer and the dependants with respect to which the Officer was receiving benefits under the medical plan as of the date of the Officer's resignation for a period ending twelve (12) months following the date of such resignation from employment, or until the Officer becomes eligible to participate in a subsequent employer's medical plan, whichever occurs first.

(iii) Termination for "Cause" shall mean a termination of the Officer's employment with the Company because of (A) a failure by the Officer to substantially perform the Officer's customary duties with the Company in the ordinary course (other than such failure resulting from the Officer's incapacity due to physical or mental illness or any such actual or anticipated failure after the Officer provides written notification to the Company of resignation of employment for Good Reason under this Agreement) that, if susceptible to cure, has not been cured as determined by the Company within 30 days after a written demand for substantial performance is delivered to the Officer by the Company, which demand specifically identifies the manner in which the Company believes that the Officer has not substantially performed the Officer's duties; (B) the Officer's gross negligence, intentional misconduct or fraud in the performance of his or her employment; (C) the Officer's indictment for a felony or to a crime involving fraud or dishonesty; (D) a judicial determination that the Officer committed fraud or dishonesty against any natural person, firm, partnership, limited liability company, association, corporation, company, trust, business trust, governmental authority or other entity (each, a "Person"); or (e) the Officer's material violation of one or more of the Company's policies applicable to the Officer's employment as may be in effect from time to time.

(iv) Termination of the Officer's employment for Cause shall be communicated by delivery to the Officer of a written notice from the Company stating that the Officer will be terminated for Cause, specifying the particulars thereof and the effective date of such termination. The date of a resignation other than for Good Reason by the Officer shall be the date specified in a written notice of resignation from the Officer to the Company provided that the Officer shall provide at least 90 days' advance written notice of his resignation other than for Good Reason.

(b) Involuntary Termination.

(i) If, prior to the expiration of the Initial Term or any Additional Term, the Company terminates the Officer's employment for any reason other than Disability, death or Cause or if the Officer resigns from his employment for Good Reason (such termination or resignation being hereinafter referred to as an "Involuntary Termination"), the Officer shall be entitled to (A) payment of his Salary accrued up to and including the date of the Involuntary Termination, (B) payment of any unreimbursed expenses and (C) subject to Section 4(g) below, severance (the "Severance"), consisting of the following:

(1) Provided that the Officer has not become entitled to the Performance Bonus on or prior to the date of the Involuntary termination, the Company shall pay to the Officer an amount equal to twelve months of Salary at the monthly rate in effect on the date of the Involuntary Termination. Such amount shall be paid over a period of twelve months, which, subject to Section 4(f), shall be payable to the Officer in accordance with the Company's normal payroll schedule as in effect on the date of the Involuntary Termination, commencing with the first payroll date occurring at least thirty (30) days following the date of the Involuntary Termination. The Company and the Officer agree that for purposes of Section 409A of the Code, the payments pursuant to this Section shall be treated as a right to a series of separate payments.

(2) In the event that the Officer elects to receive coverage for medical benefits under COBRA, the Company shall pay the cost of the COBRA Coverage for the Officer and the dependants with respect to which the Officer was receiving benefits under the medical plan as of the date of the Involuntary Termination, for a period ending twelve (12) months following the date of such Involuntary Termination, or until the Officer becomes eligible to participate in a subsequent employer's medical plan, whichever occurs first.

(3) The Company shall pay to the Officer the Annual Incentive, in a prorated amount based on the number of days the Officer was actually employed during the applicable plan year and on deemed satisfactory performance by the Officer, but based on actual performance objectives satisfied by the Company. Such amount shall be paid in accordance with the terms of the applicable plans and policies of the Company following the determination by the Committee of the extent of achievement of the applicable performance objectives, but in any event no earlier than January 1 or later than March 15 of the year following the applicable plan year.

(4) To the extent the Officer's place of employment is located outside the United States on the date of the Involuntary Termination, the Company shall pay the cost to repatriate the Officer and his immediate family in accordance with the repatriation provisions set forth in Schedule A.

(5) The provisions of Section 5(c) and 5(d) shall cease to apply.

(ii) Resignation for "Good Reason" shall mean resignation by the Officer because of, unless the Officer otherwise consents in writing, one or more of the following circumstances if and only if the Officer informs the Company in writing within 30 days following its initial occurrence that one or more of such circumstances has occurred and such circumstances have not, if susceptible to cure, been cured as determined by the Company within 30 days after a written demand for substantial performance is delivered to the Company by the Officer, which demand specifically identifies the manner in which the Officer believes that the Company has not performed its obligations:

(1) a reduction in the Officer's base Salary; or

(2) the nature or status of the Officer's authorities, duties or responsibilities has been materially and adversely altered.

(iii) Resignation for Good Reason shall be communicated by delivery to the Company of a written notice from the Officer stating that the Officer will be resigning for Good

Reason, specifying the particulars thereof and the effective date of such resignation, which shall be a date no later than six months after the first occurrence of the circumstance(s) constituting Good Reason. If the Officer provides such written notice to the Company, the Company shall have 30 days from the date of receipt of such notice to effect a cure of the material breach described therein and, upon cure thereof by the Company, such material breach shall no longer constitute Good Reason for purposes of this Agreement.

(iv) The date of termination of employment without Cause shall be the date specified in a written notice of termination to the Officer. The date of resignation for Good Reason shall be the date specified in a written notice of resignation from the Officer to the Company; provided, however, that no such written notice shall be effective unless the cure period specified in Section 4(b)(ii) above has expired without the Company having corrected the event or events subject to cure.

(c) Termination Due to Disability. In the event of the Officer's Disability, the Company shall be entitled to terminate his employment. In the case that the Company terminates the Officer's employment due to Disability, the Officer shall be entitled to (i) payment of his Salary up to and including the date of termination, (ii) payment of any unpaid expense reimbursements, (iii) subject to Section 4(g) below, payment of the Annual Incentive, in a prorated amount based on the number of days the Officer was actually employed during the applicable plan year, based on actual performance objectives satisfied by the Company, and payable in a lump sum payment in accordance with the terms of the applicable plans and policies of the Company following the determination by the Committee of the extent of achievement of the applicable performance objectives, but in any event no earlier than January 1 or later than March 15 of the year following the applicable plan year, and (iv) to the extent the Officer's place of employment is located outside the United States on the date of termination, payment by the Company of the cost to repatriate the Officer and his immediate family in accordance with the repatriation provisions set forth in Schedule A. As used in this Section 4(c), the term "Disability" shall mean that the Company determines that due to physical or mental illness or incapacity, whether total or partial, the Officer is substantially unable to perform his duties hereunder for a period of 90 consecutive days or shorter periods aggregating 90 days during any period of 180 consecutive days. The Officer shall permit a licensed physician agreed to by the Company and the Officer (or, in the event that the Company and the Officer cannot agree, by a licensed physician agreed upon by a physician selected by the Company and a physician selected by the Officer) to examine the Officer from time to time prior to the Officer's being determined to be Disabled, as reasonably requested by the Company, to determine whether the Officer has suffered a Disability hereunder.

(d) Death. In the event of the Officer's death while employed by the Company, the Officer's estate or named beneficiary shall be entitled to (i) payment of his Salary up to and including the date of termination (ii) payment of any unpaid expense reimbursements, (iii) payment of the Annual Incentive, in a prorated amount based on the number of days the Officer was actually employed during the applicable plan year, based on actual performance objectives satisfied by the Company, and payable in a lump sum payment in accordance with the terms of the applicable plans and policies of the Company following the determination by the Committee of the extent of achievement of the applicable performance objectives, but in any event no earlier than January 1 or later than March 15 of the year following the applicable plan year, and (iv) to the extent the Officer's place of employment is located outside the United States on the date of the Officer's death, payment by the Company of the cost to repatriate the Officer's immediate family to the city of their choice in the United States in accordance with the repatriation provisions set forth in Schedule A.

(e) Parachutes. Notwithstanding any other provisions of this Agreement to the contrary, in the event that any payments or benefits received or to be received by the Officer in connection with the Officer's employment with the Company (or termination thereof) would subject the Officer to the excise tax (the "Excise Tax") imposed under Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), the Company shall make a cash "gross-up payment" to put

the Officer in the same after tax position, after considering all relevant state, federal, local or other jurisdiction income, employment or other taxes, as would apply to the Officer if no Excise Tax were payable (the "Excise Tax Gross-Up"). The amount of the Excise Tax Gross-Up shall be determined by the Company's accountants. The Company shall pay the Excise Tax Gross-Up to the Officer no later than the last day of the Officer's taxable year following the taxable year in which Officer remits the Excise Tax.

(f) Compliance with Section 409A. Notwithstanding anything set forth herein to the contrary, no amount payable pursuant to this Agreement on account of the Officer's termination of employment with the Company which constitutes a "deferral of compensation" within the meaning of the Treasury Regulations issued pursuant to Section 409A of the Code (the "Section 409A Regulations") shall be paid unless and until the Officer has incurred a "separation from service" within the meaning of the Section 409A Regulations. Furthermore, to the extent that the Officer is a "specified employee" within the meaning of the Section 409A Regulations as of the date of the Officer's separation from service, no amount that constitutes a deferral of compensation which is payable on account of the Officer's separation from service shall be paid to the Officer before the date (the "Delayed Payment Date") which is first day of the seventh month after the date of the Officer's separation from service or, if earlier, the date of the Officer's death following such separation from service. All such amounts that would, but for this Section, become payable prior to the Delayed Payment Date will be accumulated and paid on the Delayed Payment Date.

(g) Benefits Subject to Effective Release of Claims. The Officer's right to the payments and benefits provided pursuant to Section 4(a)(ii), Section 4(b)(i) (C) or Section 4(c)(iii) above shall be conditioned upon the Officer's execution of a full general release in a form satisfactory to the Company, releasing all claims, known and unknown, that the Officer may have against the Company arising out of or in any way related to the Officer's employment or termination of employment with the Company, which release shall have become effective in accordance with its terms on or before the date on which the applicable payment is due to be made or the applicable benefit due to be provided in accordance with this Agreement.

5. COVENANTS

(a) Confidential Information. As an officer of the Company, the Officer acknowledges that he has had and will have access to confidential or proprietary information or both relating to the business of, or belonging to, the Company or any affiliates or third parties including, but not limited to, proprietary or confidential information, technical data, trade secrets, or know-how in respect of research, product plans, products, services, customer lists, customers, markets, computer software (including object code and source code), data and databases, outcomes research, documentation, instructional material, developments, inventions, processes, formulas, technology, designs, drawings, engineering, hardware, configuration information, models, manufacturing processes, sales information, cost information, business plans, business opportunities, marketing, finances or other business information disclosed to the Officer in any manner including by drawings or observations of parts or equipment, etc., all of which have substantial value to the Company (collectively, "Confidential Information").

(i) The Officer agrees that while employed with the Company and after the termination of the Officer's employment for any reason, the Officer shall not: (A) use any Confidential Information except in the course of his employment by the Company; or (B) disclose any Confidential Information to any other person or entity, except to personnel of the Company utilizing it in the course of their employment by the Company or to persons identified to the Officer in writing by the Company, without the prior written consent of the Company.

(ii) While the Officer is employed with the Company and after the termination of the Officer's employment for any reason, the Officer shall respect and adhere to any non-disclosure, confidentiality or similar agreements to which the Company or any of its affiliates are, or during the period of the Officer's employment by the Company, become, a party or subject. Upon the request of the Officer, the Company shall disclose to the Officer any such agreements to which it is a party or is subject.

(iii) The Officer hereby confirms that all Confidential Information and “Company Materials” (as hereinafter defined) are and shall remain the exclusive property of the Company. Immediately upon the termination of the Officer’s employment for any reason, or during the Officer’s employment with the Company upon the request of the Company, the Officer shall return all Company Materials, or any reproduction of such materials, apparatus, equipment and other physical property. For purposes of this Agreement, “Company Materials” are documents or other media or tangible items that contain or embody Confidential Information or any other information concerning the business, operations or plans of the Company, whether such documents have been prepared by the Officer or others.

(b) Disclosure of Previously Acquired Information to Company. The Officer hereby agrees not to disclose to the Company, and not to induce the Company to utilize, any proprietary information or trade secrets of any other party that are in his possession, unless and to the extent that he has authority to do so.

(c) Non-Competition. While the Officer is employed by the Company and, after the Officer’s termination of employment for any reason, until the earlier of (i) the first anniversary of the date of termination and (ii) the third anniversary of the Effective Date, the Officer (and any entity or business in which the Officer or any affiliate of the Officer has any direct or indirect ownership or financial interest) shall not, except with the prior written consent of the Board of Directors, directly or indirectly, own any interest in, operate, join, control or participate as a partner, director, principal, officer, or agent of, enter into any employment of, act as a consultant to, or perform any services for any business which at any time during such period is in competition with any business in which the Company, or any of its affiliates, is planning to be engaged in the near future or is engaged on or prior to the termination of Officer’s employment by the Company, anywhere in the world. This provision shall not be construed to prohibit the ownership by the Officer of less than 2% of any class of securities of any corporation that has a class of securities registered pursuant to the Securities Exchange Act of 1934, as amended, so long as he remains a passive investor in such entity.

(d) No Solicitation. While the Officer is employed by the Company and for a two-year period thereafter, the Officer shall not, directly or indirectly, for the Officer’s own account or for the account of any other Person (i) solicit, employ, retain as a consultant, interfere with or attempt to entice away from the Company or any of its affiliates, or any successor to any of the foregoing, any individual who is, has agreed to be or within one year of such solicitation, employment, retention, interference or enticement has been, employed or retained by the Company or any of its subsidiaries or any successor to any of the foregoing or (ii) solicit or attempt to solicit the trade of any Person which, at the time of such solicitation, is a customer of the Company or its affiliates, or any successor to any of the foregoing, or which the Company or its affiliates, or any successor to any of the foregoing, is undertaking reasonable steps to procure as a customer at the time of or immediately preceding the termination of Officer’s employment by the Company; provided, however, that this limitation shall only apply to any product or service which is in competition with a product or service of the Company or its affiliates.

(e) Non-Disparagement. The Officer and the Company agree that at any time during his employment with the Company or at any time thereafter, neither the Company nor the Officer shall make, or cause or assist any other person to make, any statement or other communication which impugns or attacks, or is otherwise critical of, the reputation, business or character of the other, any subsidiary or any of their respective officers, directors, employees, products or services. The foregoing restrictions shall not apply to any statements that are made truthfully in response to a subpoena or other compulsory legal process.

(f) **Enforcement.** The Officer hereby acknowledges that he has carefully reviewed the provisions of this Agreement and agrees that the provisions are fair and equitable. However, in light of the possibility of differing interpretations of law and change in circumstances, the parties hereto agree that if any one or more of the provisions of this Agreement is determined by a court of competent jurisdiction to be invalid, void or unenforceable under circumstances then existing, the parties hereto agree that the maximum period, scope or geographical area reasonable or enforceable under such circumstances shall be substituted for the stated period, scope or area.

6. GENERAL PROVISIONS

(a) **Tax Withholding.** All amounts paid to Officer hereunder shall be subject to all applicable federal, state and local wage withholding.

(b) **Notices.** Any notice hereunder by either party to the other shall be given in writing by personal delivery, or certified mail, return receipt requested, or (if to the Company) by telex or facsimile, in any case delivered to the applicable address set forth below:

(i) To the Company: MagnaChip Semiconductor, Ltd.
891 Daechi-dong, Gangnam-gu
Seoul 135-738 Korea
Facsimile No: +82-2-6903-3898
Attn: General Counsel

With a copy to: Court Square Capital Partners
Park Avenue Plaza, 34th Floor
55 East 52nd Street
New York, NY 10055 USA
Facsimile No: +1-212-752-6184
Attn: David Thomas

and

Francisco Partners, L.P.
One Letterman Drive
Building C, Suite 410
San Francisco, CA 94129 USA
Facsimile No.: +1-415-418-2999
Attn: Dipanjan Deb

and

DLA Piper US LLP
2000 University Avenue
East Palo Alto, CA 94303
Facsimile No.: +1-650-833-2001
Attn: Micheal Reagan, Esq.

(ii) To the Officer: Robert Krakauer
c/o MagnaChip Semiconductor, Ltd.
891 Daechi-dong, Gangnam-gu
Seoul 135-738 Korea
Facsimile No: +82-2-6903-3689

With a copy to: Greenberg Traurig, LLP
1900 University Avenue
East Palo Alto, CA 94303
Facsimile No: +1-650-328-8508
Attn: Garth Gartrell, Esq.

or to such other persons or other addresses as either party may specify to the other in writing.

(c) Assignment; Assumption of Agreement. This Agreement shall not be assignable, in whole or in part, by either party without the prior written consent or the other party, except as provided herein. The Company may assign its rights and obligations under this Agreement to any corporation or other business entity (i) which is an affiliate of the Company, (ii) with which the Company may merge or consolidate, or (iii) to which the Company may sell or transfer all or substantially all of its assets or 50% or more of the voting stock entitled to elect the members of the Board of Directors of the Company, provided that in each case such successor company expressly assumes the Company's obligations hereunder in writing. After any such assignment by the Company, the Company shall be discharged from all further liability hereunder and such assignee shall thereafter be deemed to be the "Company" for purposes of all terms and conditions of this Agreement, including this Section 6(c). For purposes of this Section 6(c), "affiliate" means any company that the Company controls, that controls the Company, or that is under common control with the Company.

(d) Amendment. No provision of this Agreement may be amended, modified, waived or discharged unless such amendment, modification, waiver or discharge is agreed to in writing and signed by the parties. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

(e) Severability. If any term or provision hereof is determined to be invalid or unenforceable in a final court or arbitration proceeding, (i) the remaining terms and provisions hereof shall be unimpaired and (ii) the invalid or unenforceable term or provision shall be deemed replaced by a term or provision that is valid and enforceable and that comes closest to expressing the intention of the invalid or unenforceable term or provision.

(f) Governing Law and Venue. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware and venue shall be Wilmington, Delaware.

(g) Entire Agreement. This Agreement, including Schedule A hereto, the Incentive Plan and the award agreements thereunder evidencing the equity awards granted in accordance with this Agreement, contain the entire agreement of the Officer, the Company and any predecessors or affiliates thereof with respect to the subject matter hereof and all prior agreements and negotiations are superseded hereby as of the date of this Agreement.

(h) Counterparts. This Agreement may be executed by the parties hereto in counterparts, each of which shall be deemed an original, but both such counterparts shall together constitute one and the same document.

(i) Acknowledgment Regarding Section 409A. The Company intends that income provided to the Officer pursuant to this Agreement will not be subject to taxation under Section 409A of the Code. The provisions of this Agreement shall be interpreted and construed in favor of satisfying any applicable requirements of Section 409A of the Code. However, the Company does not guarantee any particular tax effect for income provided to the Officer pursuant to this Agreement. In any event, except for the Company's responsibility to withhold applicable income and employment taxes from compensation paid or provided to the Officer and except with regard to the Gross-Up Payment and the Excise Tax Gross-Up, the Company shall not be responsible for the payment of any applicable taxes incurred by the Employee on compensation paid or provided to the Employee pursuant to this Agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement, effective as of the day and year first written above.

MAGNACHIP SEMICONDUCTOR, LTD.

By: /s/ Dipanjan Deb
Name: Dipanjan Deb
Title: Director

OFFICER

/s/ Robert Krakauer
Robert Krakauer

**AMENDED AND RESTATED
SERVICE AGREEMENT**

THIS AMENDED AND RESTATED SERVICE AGREEMENT (the "Agreement") is dated as of this 8th day of May 2008 (the "Effective Date") by and between MagnaChip Semiconductor, Ltd., a Korean yuhan hoesa (the "Company"), and Sang Park, an individual (the "Officer").

WITNESSETH:

WHEREAS, the Company and the Officer entered into a Service Agreement, dated as of the 27th day of May 2006 (the "Original Agreement"), pursuant to which the Officer was employed by the Company as its President and Chief Executive Officer and is currently employed as its Chairman of the Board of Directors and Chief Executive Officer; and

WHEREAS, the Company desires to continue to have the benefits of the Officer's knowledge and experience as a full-time officer and to employ the Officer in the manner hereinafter specified and to make provision for payment of reasonable compensation to the Officer for such services, and the Officer is willing to continue to be employed by the Company to perform the duties incident to such employment upon the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the foregoing premises, the mutual covenants, terms and conditions set forth herein, and other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby amend and restate the Original Agreement as this Amended and Restated Service Agreement as follows:

1. EFFECTIVENESS OF THIS AGREEMENT

This Agreement shall constitute a binding obligation of the Officer and the Company upon the execution of this Agreement.

2. EMPLOYMENT AND DUTIES

(a) General. Effective as of the date of the Original Agreement (the "Original Effective Date"), on the terms and conditions set forth herein, the Company has employed the Officer as President and Chief Executive Officer of the Company, and the Company currently employs the Officer as its Chief Executive Officer and Chairman. From the Effective Date, the Company shall hereby employ the Officer as the Chairman of the Board of Directors and Chief Executive Officer of the Company, and the Officer agrees upon the terms and conditions herein set forth to be employed by the Company. The Officer has been appointed as a member of the Board of Directors of the Company (the "Board") and from the Effective Date, the Company agrees that the Officer shall continue to serve as a member of the Board and that, for so long as the Officer is employed by the Company, the Company shall nominate the Officer to serve as a director at each annual stockholder meeting; provided that, if the Company has a class of equity securities registered pursuant to the Securities Exchange Act of 1934, as amended, the Company shall not be obligated to nominate the Officer to serve as a director if the Officer has previously been nominated as a director at an annual or special stockholder meeting and the stockholders holding a majority of the voting power of the Company at such meeting shall not have voted to elect the Officer. The Officer agrees that upon the termination of his employment as President and Chief Executive Officer of the Company, he shall resign from the Board and from all other Boards of Directors of the Company's affiliates of which he is a member. The Officer shall diligently perform such duties and have such responsibilities as the Board may establish from time to time, and the Officer shall report to the Board.

(b) Term. Unless terminated at an earlier date in accordance with Section 4 hereof, the term of the Officer's employment with the Company under the Original Agreement and continuing under this Agreement shall be for a term commencing on the Original Effective Date and ending on the second anniversary of the Original Effective Date (the "Initial Term"). Thereafter, unless terminated at an earlier date in accordance with Section 4 hereof, the Initial Term and each Additional Term shall be automatically extended for successive two-year periods (each, an "Additional Term"), in each case, commencing upon the expiration of the Initial Term or the then current Additional Term, unless at least 90 days prior to the expiration of such term, either party gives written notice to the other party of its intention not to extend the term of the Officer's employment. The Company's delivery of a notice of its intention not to extend the term of the Officer's employment shall not be deemed to be an Involuntary Termination (as defined below).

(c) Services. The Officer shall well and faithfully serve the Company, and shall devote all of his business time and attention to the performance of the duties of such employment and the advancement of the best interests of the Company and shall not, directly or indirectly, render services to any other person or organization for which the Officer receives compensation without the prior written approval of the Company. The Officer hereby agrees to refrain from engaging in any activity that does, shall or could reasonably be deemed to conflict with the best interests of the Company. The Officer shall be entitled to serve on a maximum of two other company boards of directors, provided those companies are not competitors of the Company and the Company shall make reasonable accommodation for travel and service in connection with these outside boards of directors.

3. COMPENSATION AND OTHER BENEFITS

Subject to the provisions of this Agreement, including, without limitation, the termination provisions contained in Section 4, the Company shall pay and provide the following compensation and other benefits to the Officer as compensation for all services rendered hereunder:

(a) Salary. The Company shall pay the Officer a base salary at the rate of US\$450,000.00 per annum (the "Salary"), payable to the Officer in accordance with the standard payroll practices of the Company as are in effect from time to time, less all such deductions or withholdings required by applicable law. Annual increases in the Salary will be determined by the compensation committee of the Board (the "Committee") in accordance with the Committee's policies and procedures.

(b) Bonuses.

(i) *Annual Incentive*. The Officer shall be eligible to earn an annual cash bonus (the "Annual Incentive"). The Annual Incentive shall be 100% of the Officer's Salary. The Officer's Annual Incentive shall be payable upon achievement of performance goals set by the Committee, after consultation with the Officer, and ratified by the Board. The actual bonus paid may be higher or lower than the Annual Incentive for over- or under-achievement of the Officer's performance goals, as determined by the Committee. Any Annual Incentive earned by the Officer shall be paid in accordance with the terms of the applicable plans and policies of the Company following the determination by the Committee of the extent of achievement of the applicable performance goals, but in any event no earlier than January 1 or later than March 15 of the year following the applicable plan year. The amount of the Annual Incentive in respect of the 2006 plan year shall be pro-rated to reflect the number of days the Officer was actually employed with the Company during the 2006 plan year following the Effective Date.

(ii) *Performance Bonus*. The Officer shall be paid an additional, one-time cash bonus (the "Performance Bonus") in an amount equal to US\$900,000 on the earlier of (A) June 30, 2009 or (B) the date (but not before January 1, 2009) which is six months after a closing of

the first to occur of a “Change of Control” or the Company’s “First Public Offering” (as such terms are defined in that certain Second Amended and Restated Securityholders’ Agreement dated as of October 6, 2004, among MagnaChip Semiconductor LLC and the other signatories thereto, as amended from time to time), provided the Officer remains in continuous employment with the Company through the applicable date.

(c) Benefits. The Officer shall be eligible to participate in or purchase as necessary and be reimbursed for medical, disability and life insurance plans and to receive other benefits applicable to senior officers of the Company generally in accordance with the terms of such plans as are in effect from time to time. In addition, the Company shall pay for the cost of housing accommodations and expenses related thereto in accordance with the policies currently applicable to senior executive officers of the Company and as set forth on Schedule A attached hereto (the “Housing Accommodation”), and except as otherwise provided in Section 4, during the term of this Agreement, the Officer shall be entitled to the expatriate, repatriation, and international service benefits that are described in Schedule A. Any reimbursement or in-kind benefit the Officer is entitled to receive pursuant to Schedule A shall (A) be paid no later than the last day of the Officer’s taxable year following the taxable year in which the expense was incurred, (B) not be affected by the amount of expenses eligible for reimbursement or in-kind benefits provided in any other taxable year, and (C) not be subject to liquidation or exchange for another benefit.

(d) Expenses. The Company shall pay or reimburse the Officer for all reasonable out-of-pocket expenses incurred by the Officer in connection with his employment hereunder upon submission of appropriate documentation or receipts in accordance with the policies and procedures of the Company as are in effect from time to time. Any reimbursement or expense payment the Officer is entitled to receive pursuant to this Section 3(d) shall (i) be paid no later than the last day of the Officer’s taxable year following the taxable year in which the expense was incurred, (ii) not be affected by the amount of expenses eligible for reimbursement or payment in any other taxable year and (iii) not be subject to liquidation or exchange for another benefit.

(e) Vacation. The Officer shall be entitled to annual vacation of three calendar weeks per year.

(f) Equity.

(i) Upon the Effective Date, the Officer shall be granted options to purchase 800,000 restricted Common Units (the “Options”) of MagnaChip Semiconductor LLC, a Delaware limited liability company (“MagnaChip LLC”), at a purchase price equal to US\$1.02 per Common Unit. The Options, and the restricted Common Units issued upon the exercise of the Options (the “Restricted Units”), shall be subject to restrictions contained in the MagnaChip Semiconductor LLC California Equity Incentive Plan (as the same may be amended from time to time, the “Incentive Plan”).

(ii) The Options and the Restricted Units shall be subject to forfeiture or to repurchase by the Company upon the Officer’s termination of service in accordance with the terms of the Incentive Plan, but, generally, upon the Officer’s termination of service (other than for Cause) (1) unvested Options shall be subject to repurchase by the Company at a repurchase price of US\$1.02 per Option and (2) vested Options and Restricted Units shall be subject to repurchase by the Company at a repurchase price equal to fair market value, as determined by the Board of Directors of MagnaChip LLC in good faith at the time of the repurchase. Upon a termination of service for Cause, the unvested and vested Options and Restricted Units shall be subject to repurchase by the Company at a repurchase price of US\$1.02 per Option or Restricted Unit, as the case may be. The Options shall vest in accordance with the schedule set forth in the Incentive Plan, but generally 25% of the Options shall be scheduled to vest on the first anniversary of the date hereof and an additional 6.25% of the Options shall be scheduled to vest each calendar quarter thereafter. On any scheduled vesting date, the Options shall vest only if the Officer is still employed by the Company (except as otherwise provided in this Agreement).

4. TERMINATION OF EMPLOYMENT

Subject to the notice and other provisions of this Section 4, the Company shall have the right to terminate the Officer's employment hereunder, at any time for any reason or for no stated reason, and the Officer shall have the right to resign, at any time for any reason or for no stated reason.

(a) Termination for Cause or Resignation.

(i) If, prior to the expiration of the Initial Term or any Additional Term, the Officer's employment is terminated by the Company for "Cause" (as hereinafter defined) or if the Officer resigns for any reason other than Good Reason (as hereinafter defined) from his employment hereunder, the Officer shall be paid all accrued but unpaid Salary, vacation, expense reimbursements, and other benefits due to the Officer through his termination date under any Company-provided or paid plans, policies and arrangements, in accordance with their terms. Except to the extent required by the terms of the benefits provided under Section 3(f) or applicable law, the Officer shall have no right under this Agreement or otherwise to receive any other compensation or to participate in any other plan, program or arrangement after such termination or resignation of employment with respect to the year of such termination or resignation and later years. The treatment of any outstanding Options held by the Officer as of the date of the termination shall be governed by the agreements and equity incentive plans pursuant to which the Options were granted.

(ii) Termination for "Cause" shall mean a termination of the Officer's employment with the Company because of (A) a failure by the Officer to substantially perform the Officer's customary duties with the Company in the ordinary course (other than such failure resulting from the Officer's incapacity due to physical or mental illness or any such actual or anticipated failure after the Officer provides written notification to the Company of resignation of employment for Good Reason under this Agreement) that, if susceptible to cure, has not been cured as determined by the Company within 30 days after a written demand for substantial performance is delivered to the Officer by the Company, which demand specifically identifies the manner in which the Company believes that the Officer has not substantially performed the Officer's duties; (B) the Officer's gross negligence, intentional misconduct or material fraud in the performance of his employment; (C) the Officer's conviction of, or plea of nolo contendere to, a felony or to a crime involving fraud or dishonesty; (D) a judicial determination that the Officer committed fraud or dishonesty against any natural person, firm, partnership, limited liability company, association, corporation, company, trust, business trust, governmental authority or other entity (each, a "Person"); or (E) the Officer's material violation of this Agreement or of one or more of the Company's material policies applicable to the Officer's employment as may be in effect from time to time.

(iii) Termination of the Officer's employment for Cause shall be communicated by delivery to the Officer of a written notice from the Company stating that the Officer will be terminated for Cause, specifying the particulars thereof and the effective date of such termination. The date of a resignation other than for Good Reason by the Officer shall be the date specified in a written notice of resignation from the Officer to the Company provided that the Officer shall provide at least 30 days' advance written notice of his resignation other than for Good Reason.

(b) Involuntary Termination.

(i) If, prior to the expiration of the Initial Term or any Additional Term, the Company terminates the Officer's employment for any reason other than Disability, death or Cause or if the Officer resigns from his employment for Good Reason (such termination or resignation being hereinafter referred to as an "Involuntary Termination"), the Officer shall be entitled to (A) payment of his Salary and vacation accrued up to and including the date of the Involuntary Termination, (B) payment of any unreimbursed expenses and (C) severance (the "Severance"), consisting of the following:

If the Involuntary Termination is not in connection with a Change of Control then:

(1) Provided that the Officer has not become entitled to the Performance Bonus on or prior to the date of the Involuntary Termination, the Company shall pay to the Officer an amount equal to twelve months of Salary at the monthly rate in effect on the date of the Involuntary Termination. Such amount shall be paid over a period of twelve months, which, subject to Section 4(f), shall be payable to the Officer in accordance with the Company's normal payroll schedule as in effect on the date of the Involuntary Termination, commencing with the first payroll date occurring at least thirty (30) days following the date of the Involuntary Termination. The Company and the Officer agree that for purposes of Section 409A of the Code, the payments pursuant to this Section shall be treated as a right to a series of separate payments.

(2) The Company shall pay to the Officer the Annual Incentive for the year in which the Involuntary Termination occurs. Such amount shall be paid in accordance with the terms of the applicable plans and policies of the Company following the determination by the Committee of the extent of achievement of the applicable performance objectives, but in any event no earlier than January 1 or later than March 15 of the year following the applicable plan year.

(3) The Officer shall receive 12 months' accelerated vesting with respect to the Officer's outstanding equity awards and a 12-month post-termination equity award exercise period.

(4) The Company shall continue to provide the "Enumerated Benefits" to the Officer and his eligible dependents for a period of twelve (12) months commencing on the date of the Involuntary Termination. To the extent that all or any portion of the Company's payment of the cost of the Enumerated Benefits would be for a type of benefit or exceed an amount for which, or continue for a period of time in excess of which, such Enumerated Benefits would qualify for an exemption from treatment as a deferral of compensation within the meaning of the Treasury Regulations issued pursuant to Section 409A of the Internal Revenue Code (the "Section 409A Regulations"), the Company shall, for the duration of the twelve month period, pay for the Enumerated Benefits in an amount not to exceed US\$600,000 per calendar year or any portion thereof. The amount of the Enumerate Benefits furnished in any taxable year of the Officer shall not affect the amount of Enumerated Benefits furnished by the Company in any other taxable year of the Officer. Any right of the Officer to Enumerated Benefits shall not be subject to liquidation or exchange for another benefit. Any reimbursement for Enumerated Benefits to which the Officer is entitled shall be paid no later than the last day of the Officer's taxable year following the taxable year in which the Officer's expense for the Enumerated Benefits was incurred. The "Enumerated Benefits" shall consist of medical benefits, tax equalization (taking into account only U.S. federal taxes), tax preparation services, international health insurance, home leave flights, company-paid housing and a driver.

If the Involuntary Termination is in connection with a Change of Control then:

(1) Provided that the Officer has not become entitled to the Performance Bonus on or prior to the date of the Involuntary Termination, the Company shall pay

to the Officer an amount equal to twenty-four months of Salary at the monthly rate in effect on the date of the Involuntary Termination. Such amount shall be paid over a period of twenty-four months, which, subject to Section 4(f), shall be payable to the Officer in accordance with the Company's normal payroll schedule as in effect on the date of the Involuntary Termination, commencing with the first payroll date occurring at least thirty (30) days following the date of the Involuntary Termination. The Company and the Officer agree that for purposes of Section 409A of the Code, the payments pursuant to this Section shall be treated as a right to a series of separate payments.

(2) The Company shall pay to the Officer the Annual Incentive for the year in which the Involuntary Termination occurs. Such amount shall be paid in accordance with the terms of the applicable plans and policies of the Company following the determination by the Committee of the extent of achievement of the applicable performance objectives, but in any event no earlier than January 1 or later than March 15 of the year following the applicable plan year.

(3) The Officer shall receive 24 months' accelerated vesting with respect to the Officer's outstanding equity awards and a 12 month post-termination equity award exercise period.

(4) The Company shall continue to provide the Enumerated Benefits to the Officer and his eligible dependents for a period of twenty-four (24) months commencing on the date of the Involuntary Termination. To the extent that all or any portion of the Company's payment of the cost of the Enumerated Benefits would be for a type of benefit or exceed an amount for which, or continue for a period of time in excess of which, such Enumerated Benefits would qualify for an exemption from treatment as a deferral of compensation within the meaning of the Section 409A Regulations, the Company shall, for the duration of the twenty-four month period, pay for the Enumerated Benefits in an amount not to exceed US\$600,000 per calendar year or any portion thereof. The amount of the Enumerate Benefits furnished in any taxable year of the Officer shall not affect the amount of Enumerated Benefits furnished by the Company in any other taxable year of the Officer. Any right of the Officer to Enumerated Benefits shall not be subject to liquidation or exchange for another benefit. Any reimbursement for Enumerated Benefits to which the Officer is entitled shall be paid no later than the last day of the Officer's taxable year following the taxable year in which the Officer's expense for the Enumerated Benefits was incurred.

The Severance payable to the Officer pursuant to this section shall be reduced to the extent that the Company makes any severance payments pursuant to the Korean Commercial Code or any other statute.

Without the prior consent of the Officer, neither the Company nor any affiliate shall enter into a severance arrangement with any other officer of the Company that provides such officer with severance payments and/or benefits greater than those to which the Officer is entitled pursuant to this Agreement. In addition, if the Company or any affiliate already has entered into such a severance arrangement, the Officer shall be entitled to receive equivalent severance payments and benefits.

For purposes of this Section 4(b)(i), an Involuntary Termination is "in connection with a Change of Control" if the date of the Involuntary Termination (or, if applicable, the commencement of the cure period that leads to the Involuntary Termination) is within nine months following a Change of Control.

(ii) Resignation for “Good Reason” shall mean resignation by the Officer because of, unless the Officer otherwise consents in writing, one or more of the following circumstances if and only if the Officer informs the Company in writing within 30 days following its initial occurrence that one or more of such circumstances has occurred and such circumstances have not, if susceptible to cure, been cured as determined by the Company within 30 days after a written demand for substantial performance is delivered to the Company by the Officer, which demand specifically identifies the manner in which the Officer believes that the Company has not performed its obligations:

- (1) a reduction in the Officer’s base Salary or Annual Incentive target other than a one-time reduction of not more than 10% that also is applied to substantially all of the other Company executive officers;
- (2) a material reduction in the kind or level of benefits and perquisites (including office space and location) that the Officer is eligible to receive other than a reduction that also is applied to substantially all other Company executive officers;
- (3) failure to provide, or any reduction in, the Housing Accommodation;
- (4) the nature or status of the Officer’s authorities, duties or responsibilities has been materially and adversely altered;
- (5) the Company fails to initially appoint or, subject to the proviso contained in Section 2(a), subsequently nominate the Officer to serve as a director as required by this Agreement;
- (6) the members of MagnaChip LLC have removed the Officer from the Board of Directors of MagnaChip LLC, unless the Officer shall have been removed for “cause” (as such term is defined in the Second Amended and Restated Securityholders Agreement, dated October 6, 2004, among MagnaChip LLC and the members of MagnaChip LLC); or
- (7) the Officer has not been appointed chief executive officer of MagnaChip LLC or any other affiliate of the Company immediately following an initial public offering of the equity securities of such entity.

(iii) Resignation for Good Reason shall be communicated by delivery to the Company of a written notice from the Officer stating that the Officer will be resigning for Good Reason, specifying the particulars thereof and the effective date of such resignation, which shall be a date no later than six months after the first occurrence of the circumstance(s) constituting Good Reason. If the Officer provides such written notice to the Company, the Company shall have 30 days from the date of receipt of such notice to effect a cure of the material breach described therein and, upon cure thereof by the Company, such material breach shall no longer constitute Good Reason for purposes of this Agreement.

(iv) The date of termination of employment without Cause shall be the date specified in a written notice of termination to the Officer. The date of resignation for Good Reason shall be the date specified in a written notice of resignation from the Officer to the Company; provided, however, that no such written notice shall be effective unless the cure period specified in Section 4(b)(ii) above has expired without the Company having corrected the event or events subject to cure.

(c) Termination Due to Disability. In the event of the Officer’s Disability, the Company shall be entitled to terminate his employment. In the case that the Company terminates the Officer’s employment due to Disability, the Officer shall be entitled to (i) payment of his Salary and

accrued vacation up to and including the date of termination, (ii) payment of any unpaid expense reimbursements, (iii) payment of the Annual Incentive, in a prorated amount based on the number of days the Officer was actually employed during the applicable plan year, based on actual performance objectives satisfied by the Company, and payable in a lump sum payment in accordance with the terms of the applicable plans and policies of the Company following the determination by the Committee of the extent of achievement of the applicable performance objectives, but in any event, no earlier than January 1 or later than March 15 of the year following the applicable plan year, and (iv) other benefits due to the Officer through his termination date under any Company-provided or paid plans, policies and arrangements, in accordance with their terms. As used herein, the term “Disability,” shall mean that the Company determines that due to physical or mental illness or incapacity, whether total or partial, the Officer is substantially unable to perform his duties hereunder for a period of 180 consecutive days or shorter periods aggregating 180 days during any period of 365 consecutive days. The Officer shall permit a licensed physician agreed to by the Company and the Officer (or, in the event that the Company and the Officer cannot agree, by a licensed physician agreed upon by a physician selected by the Company and a physician selected by the Officer) to examine the Officer from time to time prior to the Officer’s being determined to be Disabled, as reasonably requested by the Company, to determine whether the Officer has suffered a Disability hereunder.

(d) Death. In the event of the Officer’s death while employed by the Company, the Officer’s estate or named beneficiary shall be entitled to (i) payment of his Salary and accrued vacation up to and including the date of termination (ii) payment of any unpaid expense reimbursements, (iii) payment of the Annual Incentive, in a prorated amount based on the number of days the Officer was actually employed during the applicable plan year, based on actual performance objectives satisfied by the Company, and payable in a lump sum payment in accordance with the terms of the applicable plans and policies of the Company following the determination by the Committee of the extent of achievement of the applicable performance objectives, but in any event, no earlier than January 1 or later than March 15 of the year following the applicable plan year, and (iv) other benefits due to the Officer through his termination date under any Company-provided or paid plans, policies and arrangements, in accordance with their terms.

(e) Parachutes. Notwithstanding any other provisions of this Agreement to the contrary, in the event that any payments or benefits received or to be received by the Officer in connection with the Officer’s employment with the Company (or termination thereof) would subject the Officer to the excise tax imposed under Section 4999 of the Internal Revenue Code of 1986, as amended (the “Excise Tax”), and if the net-after tax amount (taking into account all applicable taxes payable by the Officer, including without limitation any Excise Tax) that the Officer would receive with respect to such payments or benefits does not exceed the net-after tax amount the Officer would receive if the amount of such payments and benefits were reduced to the maximum amount which could otherwise be payable to the Officer without the imposition of the Excise Tax, then, only to the extent necessary to eliminate the imposition of the Excise Tax, such payments and benefits shall be reduced.

(f) Compliance with Section 409A. Notwithstanding anything set forth herein to the contrary, no amount payable pursuant to this Agreement on account of the Officer’s termination of employment with the Company which constitutes a “deferral of compensation” within the meaning of the Section 409A Regulations shall be paid unless and until the Officer has incurred a “separation from service” within the meaning of the Section 409A Regulations. Furthermore, to the extent that the Officer is a “specified employee” within the meaning of the Section 409A Regulations as of the date of the Officer’s separation from service, no amount that constitutes a deferral of compensation which is payable on account of the Officer’s separation from service shall be paid to the Officer before the date (the “Delayed Payment Date”) which is first day of the seventh month after the date of the Officer’s separation from service or, if earlier, the date of the Officer’s death following such separation from service. All such amounts that would, but for this Section, become payable prior to the Delayed Payment Date will be accumulated and paid on the Delayed Payment Date.

5. COVENANTS

(a) Confidential Information. As an officer of the Company, the Officer acknowledges that he has had and will have access to confidential or proprietary information or both relating to the business of, or belonging to, the Company or any affiliates or third parties including, but not limited to, proprietary or confidential information, technical data, trade secrets, or know-how in respect of research, product plans, products, services, customer lists, customers, markets, computer software (including object code and source code), data and databases, outcomes research, documentation, instructional material, developments, inventions, processes, formulas, technology, designs, drawings, engineering, hardware, configuration information, models, manufacturing processes, sales information, cost information, business plans, business opportunities, marketing, finances or other business information disclosed to the Officer in any manner including by drawings or observations of parts or equipment, etc., all of which have substantial value to the Company (collectively, "Confidential Information").

(i) The Officer agrees that while employed with the Company and after the termination of the Officer's employment for any reason, the Officer shall not: (A) use any Confidential Information except in the course of his employment by the Company; or (B) disclose any Confidential Information to any other person or entity, except to personnel of the Company utilizing it in the course of their employment by the Company or to persons identified to the Officer in writing by the Company, without the prior written consent of the Company.

(ii) While the Officer is employed with the Company and after the termination of the Officer's employment for any reason, the Officer shall respect and adhere to any non-disclosure, confidentiality or similar agreements to which the Company or any of its affiliates are, or during the period of the Officer's employment by the Company, become, a party or subject. Upon the request of the Officer, the Company shall disclose to the Officer any such agreements to which it is a party or is subject.

(iii) The Officer hereby confirms that all Confidential Information and "Company Materials" (as hereinafter defined) are and shall remain the exclusive property of the Company. Immediately upon the termination of the Officer's employment for any reason, or during the Officer's employment with the Company upon the request of the Company, the Officer shall return all Company Materials, or any reproduction of such materials, apparatus, equipment and other physical property. For purposes of this Agreement, "Company Materials" are documents or other media or tangible items that contain or embody Confidential Information or any other information concerning the business, operations or plans of the Company or its affiliates, whether such documents have been prepared by the Officer or others.

(b) Disclosure of Previously Acquired Information to Company. The Officer hereby agrees not to disclose to the Company, and not to induce the Company to utilize, any proprietary information or trade secrets of any other party that are in his possession, unless and to the extent that he has authority to do so.

(c) Non-Competition. While the Officer is employed by the Company and for a two-year period thereafter, the Officer (and any entity or business in which the Officer or any affiliate of the Officer has any direct or indirect ownership or financial interest) shall not, except with the prior written consent of the Board of Directors, directly or indirectly, own any interest in, operate, join, control or participate as a partner, director, principal, officer, or agent of, enter into any employment of, act as a consultant to, or perform any services for, any business which at any time during such period is in competition with any material business in which the Company, or any of its affiliates, has taken substantial steps to engage or is engaged on or prior to the termination of Officer's employment by the Company, anywhere in the world. This provision shall not be construed to prohibit the ownership by the Officer of less than 2% of any class of securities of any corporation, so long as he remains a passive investor in such entity

(d) **No Solicitation.** While the Officer is employed by the Company and for a three-year period thereafter, the Officer shall not, directly or indirectly, for the Officer's own account or for the account of any other Person (i) solicit, employ, retain as a consultant, interfere with or attempt to entice away from the Company or any of its affiliates, or any successor to any of the foregoing, any individual who is, has agreed to be or within one year of such solicitation, employment, retention, interference or enticement has been, employed or retained by the Company or any of its subsidiaries or any successor to any of the foregoing and who had frequent contact with the Officer during the Officer's employment (provided, however, it shall not be a violation of this provision if the Officer solicits or employs his administrative assistant) or (ii) solicit or attempt to solicit the trade of any Person which, at the time of such solicitation, is a significant customer of the Company or its affiliates, or any successor to any of the foregoing, or which the Company or its affiliates, or any successor to any of the foregoing, is undertaking reasonable steps to procure as a customer at the time of or immediately preceding the termination of Officer's employment by the Company and which the Company reasonably believes could become a significant customer (provided, however, that this limitation shall only apply to any product or service which is in competition with a product or service of the Company or its affiliates).

(e) **Non-Disparagement.** The Officer and the Company agree that at any time during his employment with the Company or at any time thereafter, neither the Company nor the Officer shall make, or cause or assist any other person to make, any statement or other communication which impugns or attacks, or is otherwise critical of, the reputation, business or character of the other, any subsidiary or any of their respective officers, directors, employees, products or services. The foregoing restrictions shall not apply to any statements that are made truthfully in response to a subpoena or other compulsory legal process.

(f) **Enforcement.** The Officer hereby acknowledges that he has carefully reviewed the provisions of this Agreement and agrees that the provisions are fair and equitable. However, in light of the possibility of differing interpretations of law and change in circumstances, the parties hereto agree that if any one or more of the provisions of this Agreement is determined by a court of competent jurisdiction to be invalid, void or unenforceable under circumstances then existing, the parties hereto agree that the maximum period, scope or geographical area reasonable or enforceable under such circumstances shall be substituted for the stated period, scope or area.

6. GENERAL PROVISIONS

(a) **Tax Withholding.** All amounts paid to Officer hereunder shall be subject to all applicable wage withholding.

(b) **Notices.** Any notice hereunder by either party to the other shall be given in writing by personal delivery, or certified mail, return receipt requested, or (if to the Company) by telex or facsimile, in any case delivered to the applicable address set forth below:

(i) To the Company: MagnaChip Semiconductor, Ltd.
891 Daechi-dong, Gangnam-gu
Seoul 135-738 Korea
Facsimile No: +82-2-6903-3898
Attn: General Counsel

With a copy to: Court Square Capital Partners
Park Avenue Plaza, 34th Floor
55 East 52nd Street
New York, NY 10055 USA
Facsimile No: +1-212-752-6184
Attn: David Thomas

and

Francisco Partners, L.P.
One Letterman Drive
Building C, Suite 410
San Francisco, CA 94129 USA
Facsimile No.: +1-415-418-2999
Attn: Dipanjan Deb

and

DLA Piper US LLP
2000 University Avenue
East Palo Alto, CA 94303
Facsimile No.: +1-650-833-2001
Attn: Micheal Reagan, Esq.

(ii) To the Officer: at the last known residential address.

or to such other persons or other addresses as either party may specify to the other in writing.

(c) Assignment; Assumption of Agreement. This Agreement shall be binding upon and inure to the benefit of (i) the heirs, executors, and legal representatives of the Officer upon the Officer's death, and (ii) any successor of the Company. Any such successor of the Company shall be deemed substituted for the Company under the terms of this Agreement for all purposes. For this purpose, "successor" means (i) any person, firm, corporation, or other business entity which at any time, whether by purchase, merger, or otherwise, directly or indirectly acquires all or substantially all of the assets or business of the Company or (ii) any corporation or business entity which is an affiliate of the Company and which expressly assumes the Company's obligations hereunder in writing. None of the rights of the Officer to receive any form of compensation payable pursuant to this Agreement may be assigned or transferred except by will or the laws of descent and distribution. Any other attempted assignment, transfer, conveyance, or other disposition of the Officer's right to compensation or other benefits will be null and void.

(d) Amendment. No provision of this Agreement may be amended, modified, waived or discharged unless such amendment, modification, waiver or discharge is agreed to in writing and signed by the parties. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

(e) Severability. If any term or provision hereof is determined to be invalid or unenforceable in a final court or arbitration proceeding, (i) the remaining terms and provisions hereof shall be unimpaired and (ii) the invalid or unenforceable term or provision shall be deemed replaced by a term or provision that is valid and enforceable and that comes closest to expressing the intention of the invalid or unenforceable term or provision.

(f) Governing Law and Venue. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware and venue shall be Wilmington, Delaware.

(g) Relocation Expenses. The Company shall reimburse the Officer up to US\$200,000 for reasonable relocation expenses incurred by him in connection with his relocation to Korea.

(h) Entire Agreement. This Agreement, the Incentive Plan and the award agreements thereunder evidencing the equity awards granted in accordance with this Agreement, contain the entire agreement of the Officer, the Company and any predecessors or affiliates thereof with respect to the subject matter hereof and all prior agreements and negotiations are superseded hereby as of the date of this Agreement.

(i) Counterparts. This Agreement may be executed by the parties hereto in counterparts, each of which shall be deemed an original, but both such counterparts shall together constitute one and the same document.

(j) Acknowledgment Regarding Section 409A. The Company intends that income provided to the Officer pursuant to this Agreement will not be subject to taxation under Section 409A of the Code. The provisions of this Agreement shall be interpreted and construed in favor of satisfying any applicable requirements of Section 409A of the Code. However, the Company does not guarantee any particular tax effect for income provided to the Officer pursuant to this Agreement. In any event, except for the Company's responsibility to withhold applicable income and employment taxes from compensation paid or provided to the Officer, the Company shall not be responsible for the payment of any applicable taxes incurred by the Employee on compensation paid or provided to the Employee pursuant to this Agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement, effective as of the day and year first written above.

MAGNACHIP SEMICONDUCTOR, LTD.

By: /s/ Dipanjan Deb
Name: Dipanjan Deb
Title: Director

OFFICER

/s/ Sang Park
Sang Park

CERTIFICATION BY CHIEF EXECUTIVE OFFICER

I, Sang Park, certify that:

1. I have reviewed this quarterly report on Form 10-Q of MagnaChip Semiconductor LLC;
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(s) 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 Rule 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.
5. The registrant's other certifying officer(s) 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.

Date: May 13, 2008

/s/ Sang Park

Sang Park

Chief Executive Officer and Chairman

CERTIFICATION BY CHIEF FINANCIAL OFFICER

I, Robert J. Krakauer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of MagnaChip Semiconductor LLC;
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(s) 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 Rule 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.
5. The registrant's other certifying officer(s) 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.

Date: May 13, 2008

/s/ Robert J. Krakauer

Robert J. Krakauer

President and Chief Financial Officer

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

In connection with the Quarterly Report of MagnaChip Semiconductor LLC (the "Company") on Form 10-Q for the period ending March 30, 2008, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Sang Park, Chief Executive Officer and Chairman of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Sang Park

Sang Park

Chief Executive Officer and Chairman

May 13, 2008

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

In connection with the Quarterly Report of MagnaChip Semiconductor LLC (the "Company") on Form 10-Q for the period ending March 30, 2008, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert J. Krakauer, President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Robert J. Krakauer

Robert J. Krakauer

President and Chief Financial Officer

May 13, 2008