BOSTON PROPERTIES INC
Form 10-Q
August 09, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Quarterly Period Ended June 30, 2013

¨ **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: 1-13087

BOSTON PROPERTIES, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**04-2473675**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

Prudential Center, 800 Boylston Street, Suite 1900, Boston, Massachusetts 02199-8103

(Address of principal executive offices) (Zip Code)

(617) 236-3300

(Registrant s telephone number, including area code)

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x 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 definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Common Stock, par value $.01 per share	**152,388,954**
(Class)	**(Outstanding on August 1, 2013)**

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BOSTON PROPERTIES, INC.

FORM 10-Q

for the quarter ended June 30, 2013

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PART 1. FINANCIAL INFORMATION

ITEM 1 Financial Statements.

BOSTON PROPERTIES, INC.

CONSOLIDATED BALANCE SHEETS

(Unaudited and in thousands, except for share and par value amounts)

	June 30, 2013	December 31, 2012
ASSETS		
Real estate, at cost	$ 17,059,235	$ 13,581,454
Construction in progress	1,483,114	1,036,780
Land held for future development	290,085	275,094
Less: accumulated depreciation	(2,996,520)	(2,934,160)
Total real estate	15,835,914	11,959,168
Cash and cash equivalents	1,608,731	1,041,978
Cash held in escrows	54,829	55,181
Investments in securities	14,226	12,172
Tenant and other receivables (net of allowance for doubtful accounts of $1,377 and $1,960, respectively)	66,039	69,555
Related party notes receivable		282,491
Interest receivable from related party notes receivable		104,816
Accrued rental income (net of allowance of $3,641 and $1,571, respectively)	625,654	598,199
Deferred charges, net	939,675	588,235
Prepaid expenses and other assets	179,741	90,610
Investments in unconsolidated joint ventures	137,975	659,916
Total assets	$ 19,462,784	$ 15,462,321
LIABILITIES AND EQUITY		
Liabilities:		
Mortgage notes payable	$ 4,484,657	$ 3,102,485
Unsecured senior notes (net of discount of $15,027 and $10,472, respectively)	5,834,973	4,639,528
Unsecured exchangeable senior notes (net of discount of $924 and $1,653, respectively)	734,278	1,170,356
Unsecured line of credit		
Mezzanine notes payable	311,637	
Related party notes payable	180,000	
Accounts payable and accrued expenses	212,998	199,102
Dividends and distributions payable	112,425	110,488
Accrued interest payable	141,676	72,461
Other liabilities	556,730	324,613
Total liabilities	12,569,374	9,619,033
Commitments and contingencies		
Noncontrolling interests:		
Redeemable preferred units of the Operating Partnership	110,876	110,876
Redeemable interest in property partnership	98,162	97,558
Equity:		
Stockholders equity attributable to Boston Properties, Inc.:		
Excess stock, $.01 par value, 150,000,000 shares authorized, none issued or outstanding		

Preferred stock, $.01 par value, 50,000,000 shares authorized;		
5.25% Series B cumulative redeemable preferred stock, $.01 par value, liquidation preference $2,500 per share, 92,000 shares authorized, 80,000 and no shares issued and outstanding at June 30, 2013 and December 31, 2012, respectively	200,000	
Common stock, $.01 par value, 250,000,000 shares authorized, 152,463,640 and 151,680,109 issued and 152,384,740 and 151,601,209 outstanding at June 30, 2013 and December 31, 2012, respectively	1,524	1,516
Additional paid-in capital	5,246,243	5,222,073
Earnings (dividends) in excess of dividends (earnings)	192,492	(109,985)
Treasury common stock at cost, 78,900 shares at June 30, 2013 and December 31, 2012	(2,722)	(2,722)
Accumulated other comprehensive loss	(12,689)	(13,817)
Total stockholders equity attributable to Boston Properties, Inc.	5,624,848	5,097,065
Noncontrolling interests:		
Common units of the Operating Partnership	570,135	539,753
Property partnerships	489,389	(1,964)
Total equity	6,684,372	5,634,854
Total liabilities and equity	$ 19,462,784	$ 15,462,321

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

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BOSTON PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three months ended June 30, 2013	Three months ended June 30, 2012	Six months ended June 30, 2013	Six months ended June 30, 2012
	(in thousands, except for per share amounts)			
Revenue				
Rental				
Base rent	$ 403,942	$ 371,019	$ 781,670	$ 725,844
Recoveries from tenants	68,434	57,361	132,863	109,009
Parking and other	23,969	23,356	47,799	45,615
Total rental revenue	496,345	451,736	962,332	880,468
Hotel revenue	11,118	10,049	19,409	16,865
Development and management services	7,857	9,564	16,593	17,709
Total revenue	515,320	471,349	998,334	915,042
Expenses				
Operating				
Rental	179,837	161,172	352,457	317,014
Hotel	7,335	6,616	14,379	12,715
General and administrative	22,194	19,066	65,765	46,685
Transaction costs	535	8	978	2,112
Impairment loss			8,306	
Depreciation and amortization	134,604	111,168	255,199	219,630
Total expenses	344,505	298,030	697,084	598,156
Operating income	170,815	173,319	301,250	316,886
Other income (expense)				
Income from unconsolidated joint ventures	48,783	21,191	57,504	32,912
Gains on consolidation of joint ventures	387,801		387,801	
Interest and other income	1,296	2,382	2,767	4,028
Gains (losses) from investments in securities	181	(186)	916	615
Gains from early extinguishments of debt	152	274	152	1,041
Interest expense	(103,140)	(99,901)	(203,573)	(203,138)
Income from continuing operations	505,888	97,079	546,817	152,344
Discontinued operations				
Income from discontinued operations	873	218	934	788
Gain on sale of real estate from discontinued operations		36,877		36,877
Gain on forgiveness of debt from discontinued operations			20,182	
Impairment loss from discontinued operations			(3,241)	
Net income	506,761	134,174	564,692	190,009
Net income attributable to noncontrolling interests				
Noncontrolling interests in property partnerships	219	(457)	(2,355)	(1,003)
Noncontrolling interest redeemable preferred units of the Operating Partnership	(1,123)	(765)	(2,303)	(1,566)
Noncontrolling interest common units of the Operating Partnership	(50,734)	(10,318)	(55,277)	(16,310)
Noncontrolling interest in discontinued operations common units of the Operating Partnership	(88)	(4,075)	(1,900)	(4,159)
Net income attributable to Boston Properties, Inc.	455,035	118,559	502,857	166,971
Preferred dividends	(2,618)		(2,764)	

Net income attributable to Boston Properties, Inc. common shareholders	$ 452,417	$ 118,559	$ 500,093	$ 166,971
Basic earnings per common share attributable to Boston Properties, Inc. common shareholders:				
Income from continuing operations	$ 2.94	$ 0.57	$ 3.17	$ 0.89
Discontinued operations	0.01	0.22	0.10	0.23
Net income	$ 2.95	$ 0.79	$ 3.27	$ 1.12
Weighted average number of common shares outstanding	151,938	150,312	151,793	149,328
Diluted earnings per common share attributable to Boston Properties, Inc. common shareholders:				
Income from continuing operations	$ 2.93	$ 0.56	$ 3.16	$ 0.89
Discontinued operations	0.01	0.22	0.10	0.23
Net income	$ 2.94	$ 0.78	$ 3.26	$ 1.12
Weighted average number of common and common equivalent shares outstanding	152,490	150,694	152,222	149,720

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

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BOSTON PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	(in thousands)			
Net income	$ 506,761	$ 134,174	$ 564,692	$ 190,009
Other comprehensive income:				
Amortization of interest rate contracts(1)	627	648	1,255	1,297
Other comprehensive income	627	648	1,255	1,297
Comprehensive income	507,388	134,822	565,947	191,306
Net income attributable to noncontrolling interests	(51,726)	(15,615)	(61,835)	(23,038)
Other comprehensive income attributable to noncontrolling interests	(63)	(68)	(127)	(137)
Comprehensive income attributable to Boston Properties, Inc.	$ 455,599	$ 119,139	$ 503,985	$ 168,131

(1) Amounts reclassified from comprehensive income primarily to interest expense within the Company s Consolidated Statements of Operations.

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

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BOSTON PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(Unaudited and in thousands)

	Common Stock						Accumulated		
	Shares	Amount	Preferred Stock	Additional Paid-in Capital	Dividends in Excess of Earnings	Treasury Stock, at cost	Other Comprehensive Loss	Noncontrolling Interests	Total
Equity, December 31, 2012	151,601	$ 1,516	$	$ 5,222,073	$ (109,985)	$ (2,722)	$ (13,817)	$ 537,789	$ 5,634,854
Redemption of operating partnership units in exchange for common stock	334	4		10,305				(10,309)	
Allocated net income for the year					502,857			55,978	558,835
Dividends/distributions declared					(200,380)			(22,705)	(223,085)
Issuance of 5.25% Series B cumulative redeemable preferred stock			200,000	(6,080)					193,920
Shares issued in connection with exchange of Exchangeable Senior Notes	419	4		43,830					43,834
Equity component of exchange of Exchangeable senior notes				(43,869)					(43,869)
Shares issued pursuant to stock purchase plan	3			335					335
Net activity from stock option and incentive plan	28			5,353				20,388	25,741
Noncontrolling interests in property partnerships recorded upon consolidation								483,488	483,488
Contributions from noncontrolling interests in property partnerships								10,564	10,564
Distributions to noncontrolling interests in property partnerships								(1,500)	(1,500)
Amortization of interest rate contracts							1,128	127	1,255
Reallocation of noncontrolling interest				14,296				(14,296)	
Equity, June 30, 2013	152,385	$ 1,524	$ 200,000	$ 5,246,243	$ 192,492	$ (2,722)	$ (12,689)	$ 1,059,524	$ 6,684,372
Equity, December 31, 2011	148,108	$ 1,481	$	$ 4,936,457	$ (53,080)	$ (2,722)	$ (16,138)	$ 547,518	$ 5,413,516
Redemption of operating partnership units in exchange for common stock	227	2		6,829				(6,831)	
Conversion of redeemable preferred units to common units								4,115	4,115
Allocated net income for the year					166,971			21,472	188,443
Dividends/distributions declared					(165,055)			(20,100)	(185,155)
Sale of common stock, net of offering costs	2,348	24		247,162					247,186
Shares issued pursuant to stock purchase plan	4			381					381
Net activity from stock option and incentive plan	29			4,032				14,673	18,705
Distributions to noncontrolling interests in property partnerships								(1,500)	(1,500)
							1,160	137	1,297

Amortization of interest rate contracts									
Reallocation of noncontrolling interest				(10,178)				10,178	
Equity, June 30, 2012	150,716	$ 1,507	$	$ 5,184,683	$ (51,164)	$ (2,722)	$ (14,978)	$ 569,662	$ 5,686,988

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

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BOSTON PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the six months ended June 30,	
	2013	2012
	(in thousands)	
Cash flows from operating activities:		
Net income	$ 564,692	$ 190,009
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	255,795	221,940
Non-cash compensation expense	32,464	18,113
Impairment loss	8,306	
Income from unconsolidated joint ventures	(57,504)	(32,912)
Gains on consolidation of joint ventures	(387,801)	
Distributions of net cash flow from operations of unconsolidated joint ventures	25,689	20,190
Gains from investments in securities	(916)	(615)
Non-cash portion of interest expense	20,120	21,893
Settlement of accreted debt discount on repurchases of unsecured exchangeable senior notes	(56,532)	(68,760)
Gains from early extinguishments of debt	(264)	(1,196)
Gain on sale of real estate from discontinued operations		(36,877)
Gain on forgiveness of debt from discontinued operations	(20,182)	
Impairment loss from discontinued operations	3,241	
Change in assets and liabilities:		
Cash held in escrows	2,687	8,067
Tenant and other receivables, net	(7,018)	30,120
Accrued rental income, net	(29,127)	(39,524)
Prepaid expenses and other assets	17,708	38,703
Accounts payable and accrued expenses	1,399	(2,710)
Accrued interest payable	2,022	(3,917)
Other liabilities	(20,086)	(7,589)
Tenant leasing costs	(19,855)	(23,855)
Total adjustments	(229,854)	141,071
Net cash provided by operating activities	334,838	331,080
Cash flows from investing activities:		
Acquisitions of real estate	(522,900)	(621,359)
Construction in progress	(181,056)	(152,548)
Building and other capital improvements	(23,681)	(21,569)
Tenant improvements	(55,988)	(72,786)
Proceeds from the sales of real estate	39,320	61,963
Cash recorded upon consolidation	79,468	
Repayments of notes receivable, net	12,491	(1,974)
Capital contributions to unconsolidated joint ventures		(325)
Capital distributions from unconsolidated joint ventures	201,182	3,057
Investments in securities, net	(1,138)	(873)
Net cash used in investing activities	(452,302)	(806,414)

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BOSTON PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the six months ended June 30, 2013	2012
	(in thousands)	
Cash flows from financing activities:		
Repayments of mortgage notes payable	(79,865)	(219,865)
Proceeds from unsecured senior notes	1,194,753	997,790
Redemption/repurchase/exchange of unsecured exchangeable senior notes	(393,468)	(507,434)
Deferred financing costs	(8,546)	(7,758)
Net proceeds from preferred stock issuance	193,920	
Net proceeds from ATM stock issuances		247,186
Net proceeds from equity transactions	(694)	973
Dividends and distributions	(223,451)	(185,269)
Contributions from noncontrolling interest in property partnership	6,018	
Distributions to noncontrolling interest in property partnerships	(4,450)	(1,500)
Net cash provided by financing activities	684,217	324,123
Net increase (decrease) in cash and cash equivalents	566,753	(151,211)
Cash and cash equivalents, beginning of period	1,041,978	1,823,208
Cash and cash equivalents, end of period	$ 1,608,731	$ 1,671,997
Supplemental disclosures:		
Cash paid for interest	$ 271,177	$ 276,494
Interest capitalized	$ 32,854	$ 21,278
Non-cash investing and financing activities:		
Additions to real estate included in accounts payable and accrued expenses	$ 4,746	$ 3,225
Real estate and related intangibles recorded upon consolidation	$ 3,356,000	$
Debt recorded upon consolidation	$ 2,056,000	$
Working capital recorded upon consolidation	$ 91,280	$
Noncontrolling interests recorded upon consolidation	$ 483,488	$
Investment in unconsolidated joint venture eliminated upon consolidation	$ 361,808	$
Mortgage note payable extinguished through foreclosure	$ 25,000	$
Real estate transferred upon foreclosure	$ 7,508	$
Land improvements contributed by noncontrolling interest in property partnership	$ 4,546	$

Dividends and distributions declared but not paid	$	112,425	$	93,353
Issuance of common stock in connection with the exchange of exchangeable senior notes	$	43,834	$	
Conversions of noncontrolling interests to stockholders equity	$	10,309	$	6,831
Conversion of redeemable preferred units to common units	$		$	4,115
Issuance of restricted securities to employees and directors	$	30,077	$	25,955

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

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BOSTON PROPERTIES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Organization

Boston Properties, Inc. (the Company), a Delaware corporation, is a self-administered and self-managed real estate investment trust (REIT). The Company is the sole general partner of Boston Properties Limited Partnership (the Operating Partnership) and at June 30, 2013 owned an approximate 89.2% (88.5% at June 30, 2012) general and limited partnership interest in the Operating Partnership. Partnership interests in the Operating Partnership are denominated as common units of partnership interest (also referred to as OP Units), long term incentive units of partnership interest (also referred to as LTIP Units) or preferred units of partnership interest (also referred to as Preferred Units). In addition, in February 2011 and February 2012, the Company issued LTIP Units in connection with the granting to employees of outperformance awards (also referred to as 2011 OPP Units and 2012 OPP Units, respectively, and collectively as OPP Units). In February 2013, the Company issued LTIP Units in connection with the granting to employees of 2013 MYLTIP Units (2013 MYLTIP Units). Because the rights, preferences and privileges of OPP Units and 2013 MYLTIP Units differ from other LTIP Units granted to employees as part of the annual compensation process, unless specifically noted otherwise, all references to LTIP Units exclude OPP Units and 2013 MYLTIP Units (See Notes 9 and 12).

Unless specifically noted otherwise, all references to OP Units exclude units held by the Company. A holder of an OP Unit may present such OP Unit to the Operating Partnership for redemption at any time (subject to restrictions agreed upon at the time of issuance of OP Units to particular holders that may restrict such redemption right for a period of time, generally one year from issuance). Upon presentation of an OP Unit for redemption, the Operating Partnership is obligated to redeem such OP Unit for cash equal to the value of a share of common stock of the Company (Common Stock) at such time. In lieu of a cash redemption, the Company may elect to acquire such OP Unit for one share of Common Stock. Because the number of shares of Common Stock outstanding at all times equals the number of OP Units that the Company owns, one share of Common Stock is generally the economic equivalent of one OP Unit, and the quarterly distribution that may be paid to the holder of an OP Unit equals the quarterly dividend that may be paid to the holder of a share of Common Stock. An LTIP Unit is generally the economic equivalent of a share of restricted common stock of the Company. LTIP Units, whether vested or not, will receive the same quarterly per unit distributions as OP Units, which equal per share dividends on Common Stock (See Note 10).

At June 30, 2013, there were three series of Preferred Units outstanding (i.e., Series Two Preferred Units, Series Four Preferred Units and Series B Preferred Units). The Series Two Preferred Units bear a distribution that is set in accordance with an amendment to the partnership agreement of the Operating Partnership. Each Series Two Preferred Unit may also be converted into approximately 1.312336 OP Units or redeemed for $50.00 of cash at the election of the holder thereof or the Operating Partnership in accordance with the terms and conditions set forth in the applicable amendment to the partnership agreement. The Series Four Preferred Units are not convertible into or exchangeable for any common equity of the Operating Partnership or the Company, have a per unit liquidation preference of $50.00 and are entitled to receive quarterly distributions of $0.25 per unit (or an annual rate of 2.00%) (See Note 9). The Series B Preferred Units were issued to the Company on March 27, 2013 in connection with the Company's issuance of 80,000 shares (8,000,000 depositary shares each representing 1/100th of a share) of 5.25% Series B Cumulative Redeemable Preferred Stock (the Series B Preferred Stock). The Company contributed the net proceeds from the offering to the Operating Partnership in exchange for 80,000 Series B Preferred Units having terms and preferences generally mirroring those of the Series B Preferred Stock (See Note 10).

All references herein to the Company refer to Boston Properties, Inc. and its consolidated subsidiaries, including the Operating Partnership, collectively, unless the context otherwise requires.

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Properties

At June 30, 2013, the Company owned or had interests in a portfolio of 179 commercial real estate properties (the Properties) aggregating approximately 44.8 million net rentable square feet, including eight properties under construction totaling approximately 2.8 million net rentable square feet. In addition, the Company has structured parking for approximately 46,411 vehicles containing approximately 15.7 million square feet. At June 30, 2013, the Properties consist of:

- 171 office properties, including 131 Class A office properties (including seven properties under construction) and 40 Office/Technical properties;
- one hotel;
- four retail properties; and
- three residential properties (including one property under construction).

The Company owns or controls undeveloped land parcels totaling approximately 512.8 acres.

The Company considers Class A office properties to be centrally located buildings that are professionally managed and maintained, attract high-quality tenants and command upper-tier rental rates, and that are modern structures or have been modernized to compete with newer buildings. The Company considers Office/Technical properties to be properties that support office, research and development, laboratory and other technical uses. The Company s definitions of Class A Office and Office/Technical properties may be different than those used by other companies.

2. Basis of Presentation and Summary of Significant Accounting Policies

Boston Properties, Inc. does not have any other significant assets, liabilities or operations, other than its investment in the Operating Partnership, nor does it have employees of its own. The Operating Partnership, not Boston Properties, Inc., executes all significant business relationships. All majority-owned subsidiaries and joint ventures over which the Company has financial and operating control and variable interest entities (VIE s) in which the Company has determined it is the primary beneficiary are included in the consolidated financial statements. All significant intercompany balances and transactions have been eliminated in consolidation. The Company accounts for all other unconsolidated joint ventures using the equity method of accounting. Accordingly, the Company s share of the earnings of these joint ventures and companies is included in consolidated net income.

The accompanying interim financial statements are unaudited; however, the financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting solely of normal recurring matters) necessary for a fair statement of the financial statements for these interim periods have been included. The results of operations for the interim periods are not necessarily indicative of the results to be obtained for other interim periods or for the full fiscal year. The year-end consolidated balance sheet data was derived from audited financial statements, but does not include all disclosure required by accounting principles generally accepted in the United States of America. These financial statements should be read in conjunction with the Company s financial statements and notes thereto contained in the Company s Annual Report in the Company s Form 10-K for its fiscal year ended December 31, 2012. Certain prior year amounts have been reclassified to conform to the current year presentation.

The Company follows the authoritative guidance for fair value measurements when valuing its financial instruments for disclosure purposes. The Company determines the fair value of its unsecured senior notes and

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unsecured exchangeable senior notes using market prices. The inputs used in determining the fair value of the Company s unsecured senior notes and unsecured exchangeable senior notes is categorized at a level 1 basis (as defined in the accounting standards for Fair Value Measurements and Disclosures) due to the fact that the Company uses quoted market rates to value these instruments. However, the inputs used in determining the fair value could be categorized at a level 2 basis (as defined in the accounting standards for Fair Value Measurements and Disclosures) if trading volumes are low. The Company determines the fair value of its mortgage notes payable using discounted cash flow analyses by discounting the spread between the future contractual interest payments and hypothetical future interest payments on mortgage debt based on current market rates for similar securities. In determining the current market rates, the Company adds its estimates of market spreads to the quoted yields on federal government treasury securities with similar maturity dates to its debt. The inputs used in determining the fair value of the Company s mortgage notes payable are categorized at a level 3 basis (as defined in the accounting standards for Fair Value Measurements and Disclosures) due to the fact that the Company considers the rates used in the valuation techniques to be unobservable inputs.

Because the Company s valuations of its financial instruments are based on these types of estimates, the actual fair values of its financial instruments may differ materially if the Company s estimates do not prove to be accurate. The following table presents the aggregate carrying value of the Company s indebtedness and the Company s corresponding estimate of fair value as of June 30, 2013 and December 31, 2012 (in thousands):

	June 30, 2013		December 31, 2012	
	Carrying Amount	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Mortgage notes payable	$ 4,484,657	$ 4,598,927	$ 3,102,485	$ 3,256,940
Mezzanine notes payable	311,637	311,665		
Unsecured senior notes	5,834,973	6,093,237	4,639,528	5,162,486
Unsecured exchangeable senior notes	734,278(1)	772,691	1,170,356(1)	1,278,554
Total	$ 11,365,545	$ 11,776,520	$ 8,912,369	$ 9,697,980

(1) Includes the net adjustment for the equity component allocation totaling approximately $12.3 million and $25.5 million at June 30, 2013 and December 31, 2012, respectively.

Out-of-Period Adjustment

During the six months ended June 30, 2012, the Company recorded additional real estate operating expenses totaling approximately $3.2 million related to the cumulative non-cash straight-line adjustment to the ground rent expense of certain ground leases that were not previously recognized on a straight-line basis. This resulted in the overstatement of real estate operating expenses by approximately $3.2 million during the six months ended June 30, 2012 and in the understatement of real estate operating expenses in the aggregate amount of approximately $3.2 million in previous periods. Because this adjustment was not material to the prior years consolidated financial statements and the impact of recording the adjustment in the then-current period was not material to the Company s consolidated financial statements, the Company recorded the related adjustment during the six months ended June 30, 2012.

Revision of Prior Period Amounts

The table below reflects selected information for the Company for the three and six months ended June 30, 2012. The servicer of the non-recourse mortgage loan in the amount of $25.0 million collateralized by the Company s Montvale Center property located in Gaithersburg, Maryland foreclosed on the property on January 31, 2012. As a result of the foreclosure, the Company recognized a gain on forgiveness of debt during the six months ended June 30, 2012 totaling approximately $17.8 million. Due to a procedural error of the trustee, the foreclosure sale was subsequently dismissed by the applicable court prior to ratification. As a result, the Company, as part of its 2012 Form 10-K filing, revised its financial statements to (1) properly reflect the property and related mortgage debt on its consolidated balance sheet at December 31, 2012, (2) reverse the gain on forgiveness of debt during the six months ended June 30, 2012 and (3) recognize the operating activity from the property for the three and six months ended June 30, 2012. On February 20, 2013, the subsequent foreclosure sale of Montvale Center was ratified by the court. As a result of the ratification, the mortgage loan totaling $25.0 million was extinguished and the related obligations were satisfied with the transfer of the real estate resulting in the recognition of a gain on forgiveness of debt totaling approximately $20.2 million during the six months ended June 30, 2013 (See Note 3). As a result, for the three and six months ended June 30, 2012, the activity for Montvale Center has been reclassified to discontinued operations in the consolidated statements of operations. In addition, operating results have been reclassified for the three and six months ended June 30, 2012 as a result of the discontinued operations presentation of (1) the Company's Bedford Business Park properties which were sold on May 17, 2012 and (2) the Company's 303 Almaden Boulevard property which was sold on June 28, 2013 (See Note 3).

	For the three months ended June 30, 2012		For the six months ended June 30, 2012	
	As Reported	As Revised	As Reported	As Revised
	(in thousands, except for per share amounts)			
Total revenue	$ 472,897	$ 471,349	$ 918,124	$ 915,042
Income from continuing operations	$ 97,471	$ 97,079	$ 153,188	$ 152,344
Discontinued operations	$ 37,275	$ 37,095	$ 55,568	$ 37,665
Net income attributable to Boston Properties, Inc. common shareholders	$ 119,070	$ 118,559	$ 183,672	$ 166,971
Income attributable to Boston Properties, Inc. common shareholders per share basic	$ 0.79	$ 0.79	$ 1.23	$ 1.12
Income attributable to Boston Properties, Inc. common shareholders per share diluted	$ 0.79	$ 0.78	$ 1.23	$ 1.12

Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income (ASU No. 2013-02). ASU No. 2013-02 requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, but only if the amount reclassified is required to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional detail about those amounts. ASU No. 2013-02 is effective prospectively for reporting periods beginning after December 15, 2012. The Company s adoption of ASU No. 2013-02 did not have a material impact on its consolidated financial statements.

3. Real Estate Activity During the Six Months Ended June 30, 2013

Acquisitions

On February 6, 2013, the Company completed the acquisition of 535 Mission Street, a development site, in San Francisco, California for an aggregate purchase price of approximately $71.0 million in cash, including work completed and materials purchased to date. When completed, 535 Mission Street will consist of a 27-story, Class A office tower with approximately 307,000 net rentable square feet of office and retail space. The Company has commenced development of the project.

On March 26, 2013, the consolidated joint venture in which the Company has a 95% interest completed the acquisition of a land parcel in San Francisco, California that will support a 60-story, 1.4 million square foot office tower known as Transbay Tower. The purchase price for the land was approximately $192.0 million. On February 7, 2013, the partner in the joint venture issued a notice that it was electing under the joint venture agreement to reduce its nominal ownership interest in the venture from 50% to 5%. On February 26, 2013, the Company issued a notice to the partner electing to proceed with the venture on that basis. As a result, the Company has a 95% nominal interest in and is consolidating the joint venture (See Note 9). The joint venture has commenced construction of the initial phase of the development consisting of building the project to grade.

On March 29, 2013, the Company completed the acquisition of a parcel of land located in Reston, Virginia for a purchase price of approximately $27.0 million. The land parcel is commercially zoned for 250,000 square feet of office space.

On April 10, 2013, the Company acquired the Mountain View Research Park and Mountain View Technology Park properties from Boston Properties Office Value-Added Fund, L.P. (the Value-Added Fund) for an aggregate gross purchase price of approximately $233.5 million. Mountain View Research Park is a 16-building complex of Office/Technical properties aggregating approximately 604,000 net rentable square feet. Mountain View Technology Park is a seven-building complex of Office/Technical properties aggregating approximately 135,000 net rentable square feet. The following table summarizes the allocation of the aggregate purchase price of Mountain View Research Park and Mountain View Technology Park at the date of acquisition (in thousands).

Land	$ 126,521
Building and improvements	82,451
Tenant improvements	7,326
In-place lease intangibles	23,279
Above-market rents	843
Below-market rents	(7,336)
Net assets acquired	$ 233,084

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On May 31, 2013, the Company's two joint venture partners in 767 Venture, LLC (the entity that owns 767 Fifth Avenue (the General Motors Building) located in New York City) transferred all of their interests in the joint venture to third parties. 767 Fifth Avenue (the General Motors Building) is a Class A office property totaling approximately 1.8 million net rentable square feet. In connection with the transfer, the Company and its new joint venture partners modified the Company's relative decision making authority and consent rights with respect to the joint venture's assets and operations. These changes resulted in the Company having sufficient financial and operating control over 767 Venture, LLC such that, effective as of May 31, 2013, the Company accounts for the assets, liabilities and operations of 767 Venture, LLC on a consolidated basis in its financial statements instead of under the equity method of accounting (See Notes 5 and 9). The following table summarizes the allocation of the aggregate purchase price of 767 Fifth Avenue (the General Motors Building) at the date of consolidation on May 31, 2013 (in thousands).

Real estate and related intangibles recorded upon consolidation	
Land	$ 1,796,252
Building and improvements	1,447,446
Tenant improvements	85,208
In-place lease intangibles	357,781
Above market rents	101,897
Below market rents	(239,641)
Above market assumed debt adjustments	(192,943)
	$ 3,356,000
Debt recorded upon consolidation	
Mortgage notes payable	$ (1,300,000)
Mezzanine notes payable	(306,000)
Related party notes payable	(450,000)(1)
	$ (2,056,000)
Working capital recorded upon consolidation	
Cash and cash equivalents	$ 79,468
Cash held in escrows	2,403
Tenant and other receivables	7,104
Prepaid expenses and other assets	4,269
Accounts payable and accrued expenses	(2,418)
Accrued interest payable	(175,802)(2)
Other liabilities	(6,304)
	$ (91,280)
Noncontrolling interest recorded upon consolidation	
Noncontrolling interests	$ (520,000)
Noncontrolling interests working capital	36,512
	$ (483,488)
Net assets recorded upon consolidation	$ 725,232

(1) The Company s partner loan totaling $270.0 million eliminates in consolidation.
(2) The Company s share of the accrued interest payable on the partner loans totaling approximately $105.5 million eliminates in consolidation.

Mountain View Research Park and Mountain View Technology Park contributed approximately $5.2 million of revenue and approximately $(0.3) million of earnings to the Company for the period from April 10, 2013 through June 30, 2013. 767 Fifth Avenue (the General Motors Building) contributed approximately $22.6 million of revenue and approximately $0.4 million of earnings to the Company for the period from May 31, 2013 through June 30, 2013.

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The accompanying unaudited pro forma information for the six months ended June 30, 2013 and 2012 is presented as if the operating property acquisitions of (1) Mountain View Research Park and Mountain View Technology Park on April 10, 2013 and the approximately $24.4 million gain on consolidation and (2) 767 Fifth Avenue (the General Motors Building) on May 31, 2013 and the approximately $363.4 million gain on consolidation, had occurred on January 1, 2012. This unaudited pro forma information is based upon the historical consolidated financial statements of the Company and should be read in conjunction with the consolidated financial statements and notes thereto. This pro forma information does not purport to represent what the actual results of operations of the Company would have been had the above occurred, nor do they purport to predict the results of operations of future periods.

Pro Forma (Unaudited)	**Six Months Ended June 30,**	
(in thousands, except per share data)	**2013**	**2012**
Total revenue	$ 1,119,893	$ 1,065,877
Income from continuing operations	$ 147,627	$ 508,812
Net income attributable to Boston Properties, Inc.	$ 154,077	$ 501,060
Basic earnings per share:		
Net income per share attributable to Boston Properties, Inc.	$ 1.00	$ 3.33
Diluted earnings per share:		
Net income per share attributable to Boston Properties, Inc.	$ 0.99	$ 3.32

Developments

On March 22, 2013, the Company completed and fully placed in-service Two Patriots Park, a Class A office redevelopment project with approximately 256,000 net rentable square feet located in Reston, Virginia.

On April 25, 2013, the Company commenced construction of its 601 Massachusetts Avenue development project totaling approximately 478,000 net rentable square feet located in Washington, DC.

On June 14, 2013, the Company completed and fully placed in-service 17 Cambridge Center, a Class A office project with approximately 195,000 net rentable square feet located in Cambridge, Massachusetts.

Dispositions

On February 20, 2013, the foreclosure sale of the Company s Montvale Center property was ratified by the court. As a result of the ratification, the mortgage loan totaling $25.0 million was extinguished and the related obligations were satisfied with the transfer of the real estate resulting in the recognition of a gain on forgiveness of debt totaling approximately $20.2 million. The operating results of the property through the date of ratification have been classified as discontinued operations on a historical basis for all periods presented.

On June 28, 2013, the Company completed the sale of its 303 Almaden Boulevard property located in San Jose, California for a sale price of $40.0 million. Net cash proceeds totaled approximately $39.3 million. 303 Almaden Boulevard is a Class A office property totaling approximately 158,000 net rentable square feet. Because the Company entered into the related purchase and sale agreement on March 28, 2013 and the carrying value of the property exceeded its net sale price, the Company recognized an impairment loss totaling approximately $3.2 million during the three months ended March 31, 2013. As a result, there was no loss on sale of real estate recognized during the three months ended June 30, 2013. The impairment loss and operating results of this property have been classified as discontinued operations on a historical basis for all periods presented. The sale of this asset caused the Company to reevaluate its strategy for development of its adjacent Almaden land parcel, which can accommodate an approximately 840,000 square feet office complex. Based on a shorter than expected hold period, the Company reduced the carrying value of the land parcel to its estimated fair market value and recognized an impairment loss of approximately $8.3 million during the three months ended March 31, 2013. The Company's estimated fair value, as measured on a non-recurring basis, was based on comparable land sales. The Company has determined that its valuation of the land falls within Level 3 of the fair value hierarchy, as it has utilized significant unobservable inputs in its assessment.

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The following table summarizes the income from discontinued operations related to Montvale Center and 303 Almaden Boulevard and the related gain on forgiveness of debt and impairment loss for the three and six months ended June 30, 2013 and 2012 and the gain on sale of real estate and income from discontinued operations for the three and six months ended June 30, 2012 related to the Company's Bedford Business Park properties which were sold on May 17, 2012:

	For the three months ended June 30, 2013	For the three months ended June 30, 2012	For the six months ended June 30, 2013	For the six months ended June 30, 2012
	(in thousands)			
Total revenue	$ 1,529	$ 3,263	$ 3,376	$ 7,784
Expenses				
Operating	656	1,489	1,486	3,392
Depreciation and amortization		907	596	2,310
Total expenses	656	2,396	2,082	5,702
Operating income	873	867	1,294	2,082
Other expense				
Interest expense		(649)	(360)	(1,294)
Income from discontinued operations	$ 873	$ 218	$ 934	$ 788
Noncontrolling interest in income from discontinued operations common units of the Operating Partnership	(88)	(23)	(94)	(84)
Income from discontinued operations attributable to Boston Properties, Inc.	$ 785	$ 195	$ 840	$ 704
Gain on sale of real estate from discontinued operations	$	$ 36,877	$	$ 36,877
Gain on forgiveness of debt from discontinued operations			20,182	
Impairment loss from discontinued operations			(3,241)	
Noncontrolling interest in gain on sale of real estate, gain on forgiveness of debt and impairment loss from discontinued operations common units of the Operating Partnership		(4,052)	(1,806)	(4,075)
Gain sale of real estate, gain on forgiveness of debt and impairment loss from discontinued operations attributable to Boston Properties, Inc.	$	$ 32,825	$ 15,135	$ 32,802

4. Investments in Unconsolidated Joint Ventures

The investments in unconsolidated joint ventures consist of the following at June 30, 2013:

Entity	Properties	Nominal % Ownership
Square 407 Limited Partnership	Market Square North	50.0%
The Metropolitan Square Associates LLC	Metropolitan Square	51.0%
BP/CRF 901 New York Avenue LLC	901 New York Avenue	25.0%(1)
WP Project Developer LLC	Wisconsin Place Land and Infrastructure	33.3%(2)
RBP Joint Venture LLC	Eighth Avenue and 46th Street	50.0%(3)
Boston Properties Office Value-Added Fund, L.P.	N/A	39.5%(4)
Annapolis Junction NFM, LLC	Annapolis Junction	50.0%(5)
2 GCT Venture LLC	N/A	60.0%(6)
540 Madison Venture LLC	540 Madison Avenue	60.0%
125 West 55th Street Venture LLC	N/A	60.0%(7)
500 North Capitol LLC	500 North Capitol Street, NW	30.0%

(1) The Company s economic ownership can increase based on the achievement of certain return thresholds.

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(2) The Company s wholly-owned entity that owns the office component of the project also owns a 33.3% interest in the entity owning the land and infrastructure of the project.
(3) See Note 14.
(4) The Company acquired Mountain View Research Park and Mountain View Technology Park from the Value-Added Fund on April 10, 2013 (See Note 3). As of June 30, 2013, the investment is comprised of undistributed cash.
(5) Comprised of two buildings, one building under construction and two undeveloped land parcels.
(6) Two Grand Central Tower was sold on October 25, 2011. As of June 30, 2013, the investment is comprised of undistributed cash.
(7) 125 West 55th Street was sold on May 30, 2013. As of June 30, 2013, the investment is comprised of undistributed cash.

Certain of the Company s joint venture agreements include provisions whereby, at certain specified times, each partner has the right to initiate a purchase or sale of its interest in the joint ventures at an agreed upon fair value. Under these provisions, the Company is not compelled to purchase the interest of its outside joint venture partners.

The combined summarized balance sheets of the Company's unconsolidated joint ventures are as follows:

	June 30, 2013	December 31, 2012
	(in thousands)	
ASSETS		
Real estate and development in process, net	$ 949,193	$ 4,494,971
Other assets	162,065	673,716
Total assets	$ 1,111,258	$ 5,168,687
LIABILITIES AND MEMBERS /PARTNERS EQUITY		
Mortgage and notes payable	$ 745,550	$ 3,039,922
Other liabilities	25,756	792,888
Members /Partners equity	339,952	1,335,877
Total liabilities and members /partners equity	$ 1,111,258	$ 5,168,687
Company s share of equity	$ 167,225	$ 787,941
Basis differentials(1)	(29,250)	(128,025)
Carrying value of the Company s investments in unconsolidated joint ventures	$ 137,975	$ 659,916

(1) This amount represents the aggregate difference between the Company s historical cost basis and the basis reflected at the joint venture level, which is typically amortized over the life of the related assets and liabilities. Basis differentials occur from impairment of investments and upon the transfer of assets that were previously owned by the Company into a joint venture. In addition, certain acquisition, transaction and other costs may not be reflected in the net assets at the joint venture level.

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The combined summarized statements of operations of the Company's unconsolidated joint ventures are as follows:

0.4 13.4 12.1 1.7

Operating income (loss) from continuing operations	91.4	(8.6)	25.0	(27.7)	(54.9)	(61.6)
Interest expense, net	(22.9)	(1.3)	(31.2)	(76.1)	(60.3)	(57.2)
Foreign currency gain (loss), net	14.7	9.3	43.4	(210.4)	(4.7)	50.9
Reorganization items, net			804.6			
Others	(0.7)					
	(8.9)	8.1	816.8	(286.5)	(65.0)	(6.3)
Income (loss) from continuing operations before income taxes	82.5	(0.5)	841.8	(314.3)	(120.0)	(67.9)
Income tax expenses	8.4	1.9	7.3	11.6	8.8	9.1
Income (loss) from continuing operations	74.1	(2.5)	834.5	(325.8)	(128.8)	(76.9)
Income (loss) from discontinued operations, net of taxes		0.5	6.6	(91.5)	(51.7)	(152.4)
Net income (loss)	$ 74.1	$ (2.0)	$ 841.1	$ (417.3)	$ (180.6)	$ (229.3)
Dividends accrued on preferred units			6.3	13.3	12.0	10.9
Income (loss) from continuing operations attributable to common units	$ 74.1	$ (2.5)	$ 828.2	$ (339.1)	$ (140.9)	$ (87.9)
Net income (loss) attributable to common units	$ 74.1	$ (2.0)	$ 834.8	$ (430.6)	$ (192.6)	$ (240.2)
Per unit/share data:						
Earnings (loss) from continuing operations per common unit/share						
Basic	$ 1.96	$ (0.07)	$ 15.65	$ (6.43)	$ (2.69)	$ (1.66)
Diluted	$ 1.89	$ (0.07)	$ 15.65	$ (6.43)	$ (2.69)	$ (1.66)
Earnings (loss) from discontinued operations per common unit/share						
Basic and diluted	$	$ 0.02	$ 0.12	$ (1.73)	$ (0.99)	$ (2.88)
Earnings (loss) per common unit/share						
Basic	$ 1.96	$ (0.05)	$ 15.77	$ (8.16)	$ (3.68)	$ (4.54)
Diluted	$ 1.89	$ (0.05)	$ 15.77	$ (8.16)	$ (3.68)	$ (4.54)
Weighted average number of common units/stock						
Basic	37.836	37.608	52.923	52.769	52.297	52.912
Diluted	39.144	37.608	52.923	52.769	52.297	52.912
Balance Sheet Data (at period end):						
Cash and cash equivalents	$ 172.2	$ 64.9		$ 4.0	$ 64.3	$ 89.2
Total assets	625.7	453.3		399.2	707.9	770.1
Total indebtedness(2)	246.9	61.8		845.0	830.0	750.0
Long-term obligations(3)	250.0	61.5		143.2	879.4	867.4
Stockholders /Unitholders equity	162.9	215.7		(787.8)	(477.5)	(284.5)
Supplemental Data (unaudited):						
Adjusted EBITDA(4)	$ 157.9	$ 22.1	$ 76.6	$ 59.8		
Adjusted Net Income (Loss)(5)	89.2	13.3	9.3	(71.7)		

(1) As of October 25, 2009, the fresh-start adoption date, we adopted fresh-start accounting for our consolidated financial statements. Because of the emergence from reorganization proceedings and adoption of fresh-start accounting, the historical financial information for periods after October 25, 2009 is not fully comparable to periods before October 25, 2009. See Management s Discussion and Analysis of Financial Condition and Results of Operations Recent Changes to Our Business.

(2) Total indebtedness is calculated as long and short-term borrowings, including the current portion of long-term borrowings.

(3) Long-term obligations include long-term borrowings, capital leases and redeemable convertible preferred units.

(4) We define Adjusted EBITDA as net income (loss) less income (loss) from discontinued operations, net of taxes, adjusted to exclude (i) depreciation and amortization associated with continuing operations, (ii) interest expense, net, (iii) income tax expenses (benefits), (iv) restructuring and impairment charges, (v) other restructuring charges, (vi) abandoned IPO expenses, (vii) reorganization items, net, (viii) the increase in cost of sales resulting from the

fresh-start accounting inventory step-up, (ix) equity-based compensation expense, (x) foreign currency gain (loss), net and (xi) derivative valuation gain (loss), net. See the footnotes to the table below for further information regarding these items. We present Adjusted EBITDA as a supplemental measure of our performance because:

Adjusted EBITDA eliminates the impact of a number of items that may be either one time or recurring items that we do not consider to be indicative of our core ongoing operating performance;

we believe that Adjusted EBITDA is an enterprise level performance measure commonly reported and widely used by analysts and investors in our industry;

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we anticipate that our investor and analyst presentations after we are public will include Adjusted EBITDA; and

we believe that Adjusted EBITDA provides investors with a more consistent measurement of period to period performance of our core operations, as well as a comparison of our operating performance to that of other companies in our industry.

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

for planning purposes, including the preparation of our annual operating budget;

to evaluate the effectiveness of our enterprise level business strategies;

in communications with our board of directors concerning our consolidated financial performance; and

in certain of our compensation plans as a performance measure for determining incentive compensation payments.

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

	Successor		Predecessor	
	Year Ended December 31, 2010	Two-Month Period Ended December 31, 2009	Ten-Month Period Ended October 25, 2009	Year Ended December 31, 2008
	(In millions)			
Net income (loss)	$ 74.1	$ (2.0)	$ 841.1	$ (417.3)
Less: Income (loss) from discontinued operations, net of taxes		0.5	6.6	(91.5)
Income (loss) from continuing operations	74.1	(2.5)	834.5	(325.8)
Adjustments:				
Depreciation and amortization associated with continuing operations	58.4	11.2	37.7	63.8
Interest expense, net	22.9	1.3	31.2	76.1
Income tax expenses	8.4	1.9	7.3	11.6
Restructuring and impairment charges(a)	2.0		0.4	13.4
Other restructuring charges(b)			13.3	6.2
Abandoned IPO expenses(c)				3.7
Reorganization items, net(d)			(804.6)	
Inventory step-up(e)	0.9	17.2		
Equity-based compensation expense(f)	5.2	2.2	0.2	0.5
Foreign currency loss (gain), net(g)	(14.7)	(9.3)	(43.4)	210.4
Derivative valuation loss, net(h)	0.7			
Adjusted EBITDA	$ 157.9	$ 22.1	$ 76.6	$ 59.8

(a) This adjustment is comprised of all items included in the restructuring and impairment charges line item on our consolidated statements of operations, and eliminates the impact of restructuring and impairment charges related to (i) for 2010, impairment charges of $2.0 million recorded, of which $1.6 million of impairment charges were recognized for abandoned in-process research and development projects and $0.4 million of impairment charges were recognized as a result of an annual impairment test of in-process research and development, accounted for as indefinite-lived intangible assets as part of the application of fresh-start accounting, (ii) for 2009, termination benefits and other related costs, for the ten-month period ended October 25, 2009 in connection with the closure of one of our research and development facilities in Japan, (iii) for 2008, goodwill impairment triggered by the significant adverse change in the revenue of our mobile display solutions, or MDS reporting unit, and a reversal of a portion of the restructuring accrual related to the closure of our Gumi five-inch wafer fabrication facilities in 2007. We do not believe these restructuring and impairment charges are indicative of our core ongoing operating performance because we do not anticipate similar facility closures and market driven events in our ongoing operations, although we cannot guarantee that similar events will not occur in the future.

(b) This adjustment relates to certain restructuring charges that are not included in the restructuring and impairment charges line item on our consolidated statements of operations. These items are included in selling, general and administrative expenses in our consolidated statements of operations. These charges are comprised of the following: (i) for 2009, a charge of $13.3 million for restructuring-related professional fees and related expenses, and (ii) for 2008, a charge of $6.2 million for restructuring-related professional fees and related expenses. We do not believe these other restructuring charges are indicative of our core ongoing operating performance because these charges were related, in significant part, to actions we took in response to the impacts on our business resulting from the global economic recession that persisted through 2008 and 2009. We cannot guarantee that similar charges will not be incurred in the future.

(c) This adjustment eliminates a $3.7 million charge related to expenses incurred in connection with our abandoned initial public offering in 2008. We do not believe that these charges are indicative of our core operating performance. We expect to incur similar costs in connection with this offering.

(d) This adjustment eliminates the impact of largely non-cash reorganization income and expense items directly associated with our reorganization proceedings from our ongoing operations including, among others, professional fees, the revaluation of assets, the effects of the Chapter 11 reorganization plan and fresh-start accounting principles and the write-off of debt issuance costs. Included in reorganization items, net for the ten-month period ended October 25, 2009 was our predecessor s gain recognized from the effects of our reorganization proceedings. The gain results from the difference between our predecessor s carrying value of remaining pre-petition liabilities subject to compromise and the amounts to be distributed pursuant to the reorganization proceedings. The gain from the effects of the reorganization proceedings and the application of fresh-start accounting principles is comprised of the discharge of liabilities subject to

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compromise, net of the issuance of new common units and new warrants and the accrual of amounts to be settled in cash. For details regarding this adjustment, see note 5 to the consolidated financial statements of MagnaChip Semiconductor Corporation included elsewhere in this prospectus. We do not believe these items are indicative of our core ongoing operating performance because they were incurred as a result of our Chapter 11 reorganization.

(e) This adjustment eliminates the one-time impact on cost of sales associated with the write-up of our inventory in accordance with the principles of fresh-start accounting upon consummation of the Chapter 11 reorganization.

(f) This adjustment eliminates the impact of non-cash equity-based compensation expenses. Although we expect to incur non-cash equity-based compensation expenses in the future, we believe that analysts and investors will find it helpful to review our operating performance without the effects of these non-cash expenses, as supplemental information.

(g) This adjustment eliminates the impact of non-cash foreign currency translation associated with intercompany debt obligations and foreign currency denominated receivables and payables, as well as the cash impact of foreign currency transaction gains or losses on collection of such receivables and payment of such payables. Although we expect to incur foreign currency translation gains or losses in the future, we believe that analysts and investors will find it helpful to review our operating performance without the effects of these primarily non-cash gains or losses, as supplemental information.

(h) This adjustment eliminates the impact of gain or loss recognized in income on derivatives, which represents hedge ineffectiveness or derivatives value changes excluded from the risk being hedged. We enter into derivative transactions to mitigate foreign exchange risks. As our derivative transactions are limited to a certain portion of our expected cash flows denominated in USD, and we do not enter into derivative transactions for trading or speculative purposes, we do not believe that these charges or gains are indicative of our core operating performance.

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

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

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

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

We present Adjusted Net Income for a number of reasons, including:

- we use Adjusted Net Income in communications with our board of directors concerning our consolidated financial performance;

- we believe that Adjusted Net Income is an enterprise level performance measure commonly reported and widely used by analysts and investors in our industry; and

- we anticipate that our investor and analyst presentations after we are public will include Adjusted Net Income.

Adjusted Net Income is not a measure defined in accordance with GAAP and should not be construed as an alternative to income from continuing operations, cash flows from operating activities or net income (loss), as determined in accordance with GAAP. We encourage you to evaluate each adjustment and the reasons we consider them appropriate. Other companies in our industry may calculate Adjusted Net Income differently than we do, limiting its usefulness as a comparative measure. In addition, in evaluating Adjusted Net Income, you should be aware that in the future we may incur expenses similar to the adjustments in this presentation. We define Adjusted Net Income as net income (loss) less income (loss) from discontinued operations, net of taxes, excluding (i) restructuring and impairment charges, (ii) other restructuring charges, (iii) abandoned IPO expenses, (iv) reorganization items, net, (v) the increase in cost of sales resulting from the fresh-start accounting inventory step-up, (vi) equity-based compensation expense, (vii) amortization of intangibles associated with continuing operations, (viii) foreign currency gain (loss) and (ix) derivative valuation gain (loss), net.

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

	Successor		Predecessor	
	Year Ended December 31, 2010	Two-Month Period Ended December 31, 2009	Ten-Month Period Ended October 25, 2009	Year Ended December 31, 2008
	(In millions)			
Net income (loss)	$ 74.1	$ (2.0)	$ 841.1	$ (417.3)
Less: Income (loss) from discontinued operations, net of taxes		0.5	6.6	(91.5)
Income (loss) from continuing operations	74.1	(2.5)	834.5	(325.8)
Adjustments:				
Restructuring and impairment charges(a)	2.0		0.4	13.4
Other restructuring charges(b)			13.3	6.2
Abandoned IPO expenses(c)				3.7
Reorganization items, net(d)			(804.6)	
Inventory step-up(e)	0.9	17.2		
Equity-based compensation expense(f)	5.2	2.2	0.2	0.5
Amortization of intangibles associated with continuing operations(g)	21.0	5.6	8.8	20.0
Foreign currency loss (gain), net(h)	(14.7)	(9.3)	(43.4)	210.4
Derivative valuation loss, net(i)	0.7			
Adjusted Net Income (Loss)	$ 89.2	$ 13.3	$ 9.3	$ (71.7)

(a) This adjustment is comprised of all items included in the restructuring and impairment charges line item on our consolidated statements of operations, and eliminates the impact of restructuring and impairment charges related to (i) for 2010, impairment charges of $2.0 million recorded, of which $1.6 million of impairment charges were recognized for abandoned in-process research and development projects and $0.4 million of impairment charges were recognized as a result of an annual impairment test of in-process research and development, accounted for as indefinite-lived intangible assets as part of the application of fresh-start accounting, (ii) for 2009, termination benefits and other related costs, for the ten-month period ended October 25, 2009 in connection with the closure of one of our research and development facilities in Japan, (iii) for 2008, goodwill impairment triggered by the significant adverse change in the revenue of our MDS reporting unit and a reversal of a portion of the restructuring accrual related to the closure of our Gumi five-inch wafer fabrication facilities in 2007. We do not believe these restructuring and impairment charges are indicative of our core ongoing operating performance because we do not anticipate similar facility closures and market driven events in our ongoing operations, although we cannot guarantee that similar events will not occur in the future.

(b) This adjustment relates to certain restructuring charges that are not included in the restructuring and impairment charges line item on our consolidated statements of operations. These items are included in selling, general and administrative expenses in our consolidated statements of operations. These charges are comprised of the following: (i) for 2009, a charge of $13.3 million for restructuring-related professional fees and related expenses, and (ii) for 2008, a charge of $6.2 million for restructuring-related professional fees and related expenses. We do not believe these other restructuring charges are indicative of our core ongoing operating performance because these charges were related, in significant part, to actions we took in response to the impacts on our business resulting from the global economic recession that persisted through 2008 and 2009. We cannot guarantee that similar charges will not be incurred in the future.

(c) This adjustment eliminates a $3.7 million charge in 2008 related to expenses incurred in connection with our abandoned initial public offering in 2008. We do not believe that these charges are indicative of our core operating performance. We expect to incur similar costs in connection with this offering.

(d) This adjustment eliminates the impact of largely non-cash reorganization income and expense items directly associated with our reorganization proceedings from our ongoing operations including, among others, professional fees, the revaluation of assets, the effects of the Chapter 11 reorganization plan and fresh-start accounting principles and the write-off of debt issuance costs. Included in reorganization items, net for the ten-month period ended October 25, 2009 was our predecessor s gain recognized from the effects of our reorganization proceedings. The gain results from the difference between our predecessor s carrying value of remaining pre-petition liabilities subject to compromise and the amounts to be distributed pursuant to the reorganization proceedings. The gain from the effects of the reorganization proceedings and the application of fresh-start accounting principles is comprised of the discharge of liabilities subject to compromise, net of the issuance of new common units and new warrants and the accrual of amounts to be settled in cash. For details regarding this adjustment, see note 5 to the consolidated financial statements of MagnaChip Semiconductor Corporation included elsewhere in this prospectus. We do not believe these items are indicative of our core ongoing operating performance because they were incurred as a result of our reorganization proceedings.

(e) This adjustment eliminates the one-time impact on cost of sales associated with the write-up of our inventory in accordance with the principles of fresh-start accounting upon consummation of the Chapter 11 reorganization.

(f) This adjustment eliminates the impact of non-cash equity-based compensation expenses. Although we expect to incur non-cash equity-based compensation expenses in the future, we believe that analysts and investors will find it helpful to review our operating performance without the effects of these non-cash expenses, as supplemental information.

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(g) This adjustment eliminates the non-cash impact of amortization expense for intangible assets created as a result of the purchase accounting treatment of the Original Acquisition and other subsequent acquisitions, and from the application of fresh-start accounting in connection with the reorganization proceedings. We do not believe these non-cash amortization expenses for intangibles are indicative of our core ongoing operating performance because the assets would not have been capitalized on our balance sheet but for the application of purchase accounting or fresh-start accounting, as applicable.

(h) This adjustment eliminates the impact of non-cash foreign currency translation associated with intercompany debt obligations and foreign currency denominated receivables and payables, as well as the cash impact of foreign currency transaction gains or losses on collection of such receivables and payment of such payables. Although we expect to incur foreign currency translation gains or losses in the future, we believe that analysts and investors will find it helpful to review our operating performance without the effects of these primarily non-cash gains or losses, as supplemental information.

(i) This adjustment eliminates the impact of gain or loss recognized in income on derivatives, which represents hedge ineffectiveness or derivatives value changes excluded from the risk being hedged. We enter into derivative transactions to mitigate foreign exchange risks. As our derivative transactions are limited to a certain portion of our expected cash flows denominated in USD, and we do not enter into derivative transactions for trading or speculative purposes, we do not believe that these charges or gains are indicative of our core operating performance.

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

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

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

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UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

We have prepared the unaudited pro forma condensed consolidated financial information of MagnaChip for the year ended December 31, 2010 in accordance with Article 11 of Regulation S-X.

The unaudited pro forma condensed consolidated statements of operations for the year ended December 31, 2010 is derived from the historical consolidated financial statements of MagnaChip Semiconductor Corporation and gives pro forma effect to the following as if these events had occurred on January 1, 2010:

- the reorganization proceedings and adoption of fresh-start reporting;
- the corporate conversion; and
- the issuance of $250 million senior notes by MagnaChip Semiconductor S.A. and MagnaChip Semiconductor Finance Company, our wholly-owned subsidiaries, and the application of the net proceeds therefrom.

Basis of Presentation

The following information should be read in conjunction with Selected Historical Consolidated Financial and Operating Data, Management s Discussion and Analysis of Financial Condition and Results of Operations, Risk Factors, Capitalization and the audited consolidated financial statements of MagnaChip Semiconductor Corporation and the related notes included elsewhere in this prospectus. The unaudited pro forma consolidated financial information is not necessarily indicative of operating results that would have been achieved if the transactions identified above had occurred on the dates indicated, nor does it purport to represent the results we will obtain in the future.

Management prepared the accompanying unaudited pro forma condensed consolidated statement of operations for the year ended December 31, 2010 in accordance with Article 11 of Regulation S-X for inclusion in this prospectus.

The accounting policies used in the preparation of the unaudited pro forma consolidated financial statements are those disclosed in the audited consolidated financial statements of MagnaChip Semiconductor Corporation for the year ended December 31, 2010.

The following unaudited pro forma condensed consolidated financial information should be read in conjunction with Capitalization, Selected Historical Consolidated Financial and Operating Data, Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements, including the notes to those consolidated financial statements, included elsewhere in this prospectus.

The Reorganization Proceedings and Fresh-Start Reporting

On June 12, 2009 MagnaChip Semiconductor LLC, along with certain of its subsidiaries, including MagnaChip Semiconductor S.A., filed a voluntary petition for relief in the United States Bankruptcy Court for the District of Delaware under Chapter 11 of the United States Bankruptcy Code. On November 9, 2009, our plan of reorganization became effective and we emerged from the reorganization proceedings.

In connection with our emergence from the reorganization proceedings, we implemented fresh-start accounting in accordance with ASC 852. We elected to adopt a convenience date of October 25, 2009 (a month end for our financial reporting purposes) for application of fresh-start accounting. In accordance with ASC 852, we recorded largely non-cash reorganization income and expense items directly associated with our reorganization proceedings including the revaluation of assets, the effects of our reorganization plan and fresh-start accounting, the write-off of debt issuance costs and professional fees.

In implementing fresh-start reporting, our asset values were remeasured and allocated in conformity with ASC guidance on business combinations. Fresh-start reporting requires that all liabilities, other than deferred taxes and severance benefits, be stated at fair value. Deferred taxes are determined in conformity with guidance on income taxes.

The Corporate Conversion

On March 10, 2011, we converted from a Delaware limited liability company to a Delaware corporation and changed our name from MagnaChip Semiconductor LLC to MagnaChip Semiconductor Corporation. The corporate conversion adjustments in the unaudited pro forma consolidated financial information for the year ended December 31, 2010 assume the consummation of the corporate conversion was effective as of January 1, 2010.

Issuance of $250 Million Senior Notes and Applications of Net Proceeds

On April 9, 2010, MagnaChip Semiconductor S.A. and MagnaChip Semiconductor Finance Company, our wholly-owned subsidiaries, completed the sale of $250 million in aggregate principal amount of 10.500% senior notes due 2018 at an offering price of 98.674%. Net proceeds from the notes offering were $238.4 million which represents $250 million of principal amount net of $3.3 million of original issue discount and $8.3 million of debt issuance costs, including professional fees. Of the $238.4 million of net proceeds, $130.7 million was used to make a distribution to our unitholders and $61.6 million was used to repay all outstanding borrowings under our term loan. The remaining proceeds of $46.1 million were retained to fund working capital and for general corporate purposes.

	Historical Year Ended December 31 2010	Adjustments	Pro Forma Year Ended December 31, 2010
	(In millions, except per common share data)		
Condensed Pro Forma Statement of Operations:			
Net sales	$ 770.4	$	$ 770.4
Cost of sales	526.8	(0.9)(1)	526.0
Gross profit	243.6		244.4
Selling, general and administrative expenses	66.6		66.6
Research and development expenses	83.5		83.5
Restructuring and impairment charges	2.0		2.0
Operating income from continuing operations	91.4		92.3
Interest expense, net	(22.9)	(5.0)(2)	(27.9)
Foreign currency gain, net	14.7		14.7
Others	(0.7)		(0.7)
	(8.9)		(13.9)
Income from continuing operations before income taxes	82.5		78.4
Income tax expenses	8.4	3.6(3)	12.0
Income from continuing operations	$ 74.1		$ 66.4
Per common share data:			
Earnings from continuing operations per common share			
Basic	$ 1.96		$ 1.75
Diluted	$ 1.89		$ 1.70
Weighted average number of common shares			
Basic	37.836		37.836
Diluted	39.144		39.144

Notes to Unaudited Pro Forma Consolidated Financial Information for the Year Ended December 31, 2010

(1) To eliminate the one-time impact on cost of sales associated with the step up of our inventory of $17.9 million resulting from implementation of fresh-start accounting, of which $0.9 million was charged to cost of sales in the historical statement of operations for the year ended December 31, 2010, applying the first in, first out method, or FIFO. This adjustment is considered a material non-recurring charge which is directly attributable to the reorganization proceedings and fresh-start accounting and as such is being eliminated from the historical statement of operations in presenting the unaudited pro forma statement of operations.

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(2) To eliminate interest expense of $2.1 million which was incurred on our $61.6 million aggregate principal amount new term loan and $0.2 million write-off of debt issuance costs in connection with repayment of our new term loan which was recognized in the year ended December 31, 2010. In addition, the pro forma adjustment assumes the 10.500% senior notes in the aggregate principal amount of $250.0 million, issued on April 9, 2010, were outstanding as of January 1, 2010. The resulting additional interest expense from our 10.500% senior notes would have been $7.3 million using the effective interest rate method.

(3) We believe that the pro forma adjustments related to the issuance of $250 million aggregate principal amount of senior notes and the application of the net proceeds should not have an impact on income tax expense for the year ended December 31, 2010. The pro forma adjustment resulting in an increase in interest expense, net, is primarily related to our foreign subsidiary that has sufficient amounts of operating loss carry forwards with full valuation allowance for deferred tax assets and, accordingly, such pro forma adjustment will have no income tax effect.

Assuming that the corporate conversion of MagnaChip Semiconductor LLC, a partnership entity, into MagnaChip Semiconductor Corporation was effective as of January 1, 2010, MagnaChip Semiconductor Corporation would have been a taxable entity as of that date. The resulting income tax expenses for the year ended December 31, 2010 would be $3.6 million, mainly attributable to long outstanding intercompany balances.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the Selected Historical Consolidated Financial and Operating Data and our consolidated financial statements and the related notes included elsewhere in this prospectus. This discussion and analysis contains, in addition to historical information, forward-looking statements that include risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under the heading Risk Factors and elsewhere in this prospectus.

Overview

We are a Korea-based designer and manufacturer of analog and mixed-signal semiconductor products for high-volume consumer applications. We believe we have one of the broadest and deepest analog and mixed-signal semiconductor technology platforms in the industry, supported by our 30-year operating history, large portfolio of approximately 2,730 novel registered patents and 760 pending novel patent applications and extensive engineering and manufacturing process expertise. Our business is comprised of three key segments: Display Solutions, Power Solutions and Semiconductor Manufacturing Services. Our Display Solutions products include display drivers that cover a wide range of flat panel displays and multimedia devices. Our Power Solutions products include discrete and integrated circuit solutions for power management in high-volume consumer applications. Our Semiconductor Manufacturing Services segment provides specialty analog and mixed-signal foundry services for fabless semiconductor companies that serve the consumer, computing and wireless end markets.

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

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

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

Demand for our products and services is driven primarily by overall demand for consumer electronics products and can be adversely affected by periods of weak consumer spending or by market share losses by our customers. To mitigate the impact of market volatility on our business, we seek to address market segments and geographies with higher growth rates than the overall consumer electronics industry. For example, in recent years, we have experienced increasing demand from OEMs and consumers in China and Taiwan relative to overall demand for our products and services. We expect to derive a meaningful portion of our growth 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 we will be able to successfully compete based upon our higher quality products and services and that the impact from the increased competition will be more than offset by increased demand arising from such markets. Further, we believe we are well-positioned competitively as a result of our long operating history, existing manufacturing capacity and our Korea-based operations.

Within our Display Solutions and Power Solutions segments, 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 for a particular product. A customer will often have more than one supplier designed in to multi-source components for a particular product line. Once designed in, we often specify the pricing of a particular product for a set period of time, with periodic discussions and renegotiations of pricing with our customers. In any given period, our net sales depend heavily upon the end-market demand for the goods in which our products are used, the inventory levels maintained by our customers and in some cases, allocation of demand for components for a particular product among selected qualified suppliers.

Within the Semiconductor Manufacturing Services business, net sales are driven by customers decisions on which manufacturing services provider to use for a particular product. Most of our semiconductor manufacturing services customers are fabless and depend upon service providers like us to manufacture their products. A customer will often have more than one supplier of manufacturing services; however, they tend to allocate a majority of manufacturing volume to one of their suppliers. We strive to be the primary supplier of manufacturing services to our customers. Once selected as a primary supplier, we often specify the pricing of a particular service on a per wafer basis for a set period of time, with periodic discussions and renegotiations of pricing with our customers. In any given period, our net sales depend heavily upon the end-market demand for the goods in which the products we manufacture for customers are used, the inventory levels maintained by our customers and in some cases, allocation of demand for manufacturing services among selected qualified suppliers.

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

Our products and services require investments in capital equipment. Analog and mixed-signal manufacturing facilities and processes are typically distinguished by the design and process implementation expertise rather than the use of the most advanced equipment. These processes also tend to migrate more slowly to smaller geometries due to technological barriers and increased costs. For example, some of our products use high-voltage technology that requires larger geometries and that may not migrate to smaller geometries for several years, if at all. Additionally, the performance of many of our products is not necessarily dependent on geometry. As a result, our manufacturing base and strategy does not require substantial investment in leading edge process equipment, allowing us to utilize our facilities and equipment over an extended period of time with moderate required capital investments. Generally, incremental capacity expansions in our segment of the market result in more moderate industry capacity expansion as compared to leading edge processes. As a result, this market, and we, specifically, are less likely to experience significant industry overcapacity, which 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 significant change in the technology necessary to deliver our products and services. We believe that our established relationships and close collaboration with leading customers enhance our visibility into new product opportunities, market and technology trends and improve our ability to meet these challenges successfully. In our Semiconductor Manufacturing Services business, we strive to maintain competitiveness and our position as a primary manufacturing services provider to our customers by offering high value added, unique processes, high flexibility and excellent service.

Controls and Procedures

In connection with the audits of our consolidated financial statements for the ten-month period ended October 25, 2009 and two-month period ended December 31, 2009, our independent registered public accounting firm reported two control deficiencies which represented a material weakness in our internal control over financial reporting. The two control deficiencies were that we did not have a sufficient number of financial personnel with requisite financial accounting experience and that our internal controls over non-routine transactions were not effective to ensure that accounting considerations are identified and appropriately recorded. We identified and took steps to remediate this material weakness. Based on assessments of the remediation actions taken, our management has concluded that these two control deficiencies which represented a material weakness no longer exist as of December 31, 2010. See Management s Discussion and Analysis of Financial Condition and Results of Operations Controls and Procedures for management s remediation initiatives.

Recent Changes to Our Business

Beginning in the second half of 2008, we began to take steps to refocus our business strategy, enhance our operating efficiency and improve our cash flow and profitability. We restructured our continuing operations by reducing our cost structure, increasing our focus on our core, profitable technologies, products and customers, and implemented various initiatives to lower our manufacturing costs and improve our gross margins. In connection with these initiatives, we closed our Imaging Solutions business segment, which had been a source of substantial ongoing operating losses amounting to $91.5 million and $51.7 million in 2008 and 2007, respectively, and which required substantial ongoing capital investment. Our employee headcount has declined from 3,648 as of the end of July 2008 to 3,156 at the end of 2009. As a result of these actions, we were able to reduce our costs and improve our margins. Although our goal is to continue to focus on lower costs and improved margins on an ongoing basis, we expect that the financial benefits derived from our ongoing efforts will be incremental and any such benefits may be offset by other negative factors affecting our operations.

On June 12, 2009, we filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code in order to address the growing demands on our cash flow resulting from our long-term indebtedness. Our plan of reorganization went effective and we emerged from the reorganization proceeding on November 9, 2009. As a result of the plan of reorganization, our indebtedness was reduced from $845.0 million immediately prior to the effectiveness of our plan of reorganization to $61.8 million as of December 31, 2009.

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During the first half of 2009, we instituted company-wide voluntary salary reductions, which resulted in one-time savings for our continuing operations during 2009 and which in turn contributed to the decrease in salaries and related expenses in 2009 relative to 2008. In June 2009, we returned to our employees one-third of the amount by which their salaries had been reduced. We reinstated salaries to prior levels in July 2009.

In connection with our emergence from reorganization proceedings, we implemented fresh-start accounting in accordance with ASC 852 governing reorganizations. We elected to adopt a convenience date of October 25, 2009 (a month end for our financial reporting purposes) for application of fresh-start accounting. In accordance with ASC 852 governing reorganizations, we recorded largely non-cash reorganization income and expense items directly associated with our reorganization proceedings including professional fees, the revaluation of assets, the effects of our reorganization plan and fresh-start accounting, and write-off of debt issuance costs.

In implementing fresh-start accounting, we re-measured our asset values and stated all liabilities, other than deferred taxes and severance benefits, at fair value. Our reorganization value was determined based on consideration of numerous factors and various valuation methodologies, including discounted cash flows, believed by management and our financial advisors to be representative of our business and industry. Information regarding the determination of the reorganization value and application of fresh-start accounting is included in note 3 to the consolidated financial statements of MagnaChip Semiconductor Corporation included elsewhere in this prospectus. In addition, under fresh-start accounting, accumulated deficit and accumulated other comprehensive income were eliminated.

Under fresh-start accounting, our inventory, net, and intangible assets, net, increased by $17.9 million and $28.3 million, respectively, and property, plant and equipment decreased by $13.9 million, in each case to reflect the estimated fair value as of our emergence from our reorganization proceedings. As a result, our cost of sales for the two-month period ended December 31, 2009 included $17.2 million of additional costs from the inventory step-up. This resulted in our gross margin for the two-month period ended December 31, 2009 being significantly lower than for the ten-month period ended October 25, 2009 and prior periods. The increase in intangible assets results in higher amortization expenses following our emergence from our reorganization proceedings which are included in cost of sales, selling general and administrative expenses and research and development expenses. The decrease in property, plant and equipment results in lower depreciation expenses, which are included in cost of sales, selling general and administrative expenses and research and development expenses following our emergence from our reorganization proceedings.

As a result of the application of fresh-start accounting, our consolidated financial statements prior to and including October 25, 2009 represent the operations of our pre-reorganization predecessor company and are presented separately from the consolidated financial statements of our post-reorganization successor company. For the purposes of our discussion and analysis of our results of operations, we often refer to results of operations for 2009 on a combined basis, including both the period before (predecessor company) and after (successor company) effectiveness of the plan of reorganization. We believe this comparison provides useful information as the principal impact of the plan of reorganization was on our debt and capital structure and not on our core operations; and many of the steps taken to improve our core operations had commenced prior to the commencement of our reorganization proceedings.

On April 9, 2010, we completed the sale of $250 million in aggregate principal amount of 10.500% senior notes due 2018. Of the $238.4 million of net proceeds, $130.7 million was used to make a distribution to our unitholders and $61.6 million was used to repay all outstanding borrowings

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under our term loan. The remaining proceeds of $46.1 million were retained to fund working capital and for general corporate purposes. As a result of the higher level of indebtedness from our senior notes offering, our interest expense will increase above that which was reported for the year ended December 31, 2010 to approximately $27.9 million per year.

Business Segments

We report in three separate business segments because we derive our revenues from three principal business lines: Display Solutions, Power Solutions, and Semiconductor Manufacturing Services. We have identified these segments based on how we allocate resources and assess our performance.

Display Solutions: Our Display Solutions products include source and gate drivers and timing controllers that cover a wide range of flat panel displays used in LCD televisions and LED televisions and displays, mobile PCs and mobile communications and entertainment devices. Our display solutions support the industry s most advanced display technologies, such as LTPS and AMOLED, as well as high-volume display technologies such as TFT. Our Display Solutions business represented 39.7%, 50.5% and 50.5% of our net sales for the fiscal years ended December 31, 2010, 2009 (on a combined basis) and 2008, respectively.

Power Solutions: Our Power Solutions segment produces power management semiconductor products including discrete and integrated circuit solutions for power management in high-volume consumer applications. These products include MOSFETs, LED drivers, DC-DC converters, analog switches and linear regulators, such as low-dropout regulators, or LDOs. Our power solutions products are designed for applications such as mobile phones, LCD televisions, and desktop computers, and allow electronics manufacturers to achieve specific design goals of high efficiency and low standby power consumption. Going forward, we expect to continue to expand our power management product portfolio. Our Power Solutions business represented 7.4%, 2.2% and 0.9% of our net sales for the fiscal years ended December 31, 2010, 2009 (on a combined basis) and 2008, respectively.

Semiconductor Manufacturing Services: Our Semiconductor Manufacturing Services segment provides specialty analog and mixed-signal foundry services to fabless semiconductor companies that serve the consumer, computing and wireless end markets. We manufacture wafers based on our customers product designs. We do not market these products directly to end customers but rather supply manufactured wafers and products to our customers to market to their end customers. We offer approximately 240 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 are 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 and wireless end markets. Our Semiconductor Manufacturing Services business represented 52.6%, 46.7% and 47.7% of our net sales for the fiscal years ended December 31, 2010, 2009 (on a combined basis) and 2008, respectively.

Additional Business Metrics Evaluated by Management

Adjusted EBITDA and Adjusted Net Income

We use the terms Adjusted EBITDA and Adjusted Net Income throughout this prospectus. Adjusted EBITDA, as we define it, is a non-GAAP measure. We define Adjusted EBITDA as net income (loss) less income (loss) from discontinued operations, net of taxes, adjusted to exclude

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(i) depreciation and amortization associated with continuing operations, (ii) interest expense, net, (iii) income tax expense (benefits), (iv) restructuring and impairment charges, (v) other restructuring charges, (vi) abandoned IPO expenses, (vii) reorganization items, net, (viii) the increase in cost of sales resulting from the fresh-start accounting inventory step-up, (ix) equity-based compensation expense, (x) foreign currency gain (loss), net and (xi) derivative valuation gain (loss), net.

We define Adjusted Net Income as net income (loss) less income (loss) from discontinued operations, net of taxes excluding (i) restructuring and impairment charges, (ii) other restructuring charges, (iii) abandoned IPO expenses, (iv) reorganization items, net, (v) the increase in cost of sales resulting from the fresh-start accounting inventory step-up, (vi) equity-based compensation expense, (vii) amortization of intangibles associated with continuing operations, (viii) foreign currency gain (loss), net and (ix) derivative valuation gain (loss), net.

We present Adjusted EBITDA as a supplemental measure of our performance because:

- Adjusted EBITDA eliminates the impact of a number of items that may be either one time or recurring that we do not consider to be indicative of our core ongoing operating performance;
- we believe that Adjusted EBITDA is an enterprise level performance measure commonly reported and widely used by analysts and investors in our industry;
- we anticipate that our investor and analyst presentations after we are public will include Adjusted EBITDA; and
- we believe that Adjusted EBITDA provides investors with a more consistent measurement of period to period performance of our core operations, as well as a comparison of our operating performance to companies in our industry.

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

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

We present Adjusted Net Income for a number of reasons, including:

- we use Adjusted Net Income in communications with our board of directors concerning our consolidated financial performance;
- we believe that Adjusted Net Income is an enterprise level performance measure commonly reported and widely used by analysts and investors in our industry; and

we anticipate that our investor and analyst presentations after we are public will include Adjusted Net Income.

In evaluating Adjusted EBITDA and Adjusted Net Income, you should be aware that in the future we may incur expenses similar to the adjustments in our presentation of Adjusted EBITDA and Adjusted Net Income. Our presentation of Adjusted EBITDA and Adjusted Net Income should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. Adjusted EBITDA and Adjusted Net Income are not measures defined in accordance with GAAP and should not be construed as an alternative to operating income, cash flows from operating activities or

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net income (loss), as determined in accordance with GAAP. For additional information regarding how we calculate Adjusted EBITDA and Adjusted Net Income, please see Prospectus Summary Summary Historical and Unaudited Pro Forma Consolidated Financial Data.

On a pro forma basis, our Adjusted EBITDA and Adjusted Net Income for the year ended December 31, 2010 were $157.9 million and $80.6 million, respectively. Our Adjusted EBITDA and Adjusted Net Income for the combined twelve-month period ended December 31, 2009 were $98.7 million and $22.6 million, respectively. Our Adjusted EBITDA and Adjusted Net Loss for the year ended December 31, 2008 were $59.8 million and $71.7 million, respectively. This improvement resulted from our restructuring efforts and improvements in market conditions.

Factors Affecting Our Results of Operations

Net Sales. We derive a majority of our sales (net of sales returns and allowances) from three reportable segments: Display Solutions, Power Solutions and Semiconductor Manufacturing Services. Our product inventory is primarily located in Korea and is available for drop shipment globally. Outside of Korea, we maintain limited product inventory, and our sales representatives generally relay orders to our factories in Korea for fulfillment. We have strategically located our sales and technical support offices near concentrations of major customers. Our sales offices are located in Hong Kong, Japan, Korea, Taiwan, China, the United Kingdom and the United States. Our network of authorized agents and distributors consists of agents in the United States and Europe and distributors and agents in the Asia Pacific region. Our net sales from All other consist principally of rental income and, to a limited extent in 2008, semiconductor processing services for one customer where we completed a limited number of process steps, rather than the entire production process, which we refer to as unit processing.

We recognize revenue when risk and reward of ownership passes to the customer either upon shipment, upon product delivery at the customer s location or upon customer acceptance, depending on the terms of the arrangement. For the year ended December 31, 2010 and the combined twelve-month period ended December 31, 2009, we sold products to over 500 and 185 customers, respectively, and our net sales to our ten largest customers represented 63% and 69% of our net sales for the year ended December 31, 2010 and the combined twelve-month period ended December 31, 2009, respectively. The increase in number of customers is due to the continuing growth of our Power Solutions business. We have a combined production capacity of over 136,000 eight-inch equivalent semiconductor wafers per month. We believe our large-scale, cost-effective fabrication facilities enable us to rapidly adjust our production levels to meet shifts in demand by our end customers.

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

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

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

Labor Costs. A significant portion of our employees are located in Korea. Under Korean labor laws, most employees and certain executive officers with one or more years of service are entitled to severance benefits upon the termination of their employment based on their length of service and rate of pay. As of December 31, 2010, approximately 98% of our employees were eligible for severance benefits. We have in the past implemented temporary reductions in salaries to manage through downturns in the industry. We expect to and have reversed such temporary reductions when business conditions improve.

Depreciation Expense. We periodically evaluate the carrying values of long-lived assets, including property, plant and equipment and intangible assets, as well as the related depreciation periods. At December 31, 2010, we depreciated our property, plant and equipment using the straight-line method over the estimated useful lives of our assets. Depreciation rates vary from 30-40 years on buildings to five to ten years for certain equipment and assets. Our evaluation of carrying values is based on various analyses including cash flow and profitability projections. If our projections indicate that future undiscounted cash flows are not sufficient to recover the carrying values of the related long-lived assets, the carrying value of the assets is impaired and will be reduced, with the reduction charged to expense so that the carrying value is equal to fair value.

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

General and Administrative Expenses. General and administrative expenses consist of the costs of various corporate operations, including finance, legal, human resources and other administrative functions. These expenses primarily consist of payroll-related expenses, consulting and other professional fees and office facility-related expenses. Historically, our selling, general and administrative expenses have remained relatively constant as a percentage of net sales, and we expect this trend to continue in the future.

Research and Development. The rapid technological change and product obsolescence that characterize our industry require us to make continuous investments in research and development. Product development time frames vary but, in general, we incur research and development costs one to two years before generating sales from the associated new products. These expenses include personnel costs for members of our engineering workforce, cost of photomasks, silicon wafers and other non-recurring engineering charges related to product design. Additionally, we develop base-line process technology through experimentation and through the design and use of characterization wafers that help achieve commercially feasible yields for new products. The majority of research and development expenses are for process development that serves as a common technology platform for all of our product segments. Consequently, we do not allocate these expenses to individual segments. Although our research and development expenses declined significantly from 2008 to 2009, the expenses increased in the year ended December 31, 2010 and we expect the expenses to increase in future periods and to remain a relatively constant percentage of our net sales as we continue to increase our investments in research and development to develop additional products and expand our business.

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Restructuring and Impairment Charges. We evaluate the recoverability of certain long-lived assets and in-process research and development assets on a periodic basis or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. In our efforts to improve our overall profitability in future periods, we have closed or otherwise impaired, and may in the future close or impair, facilities that are underutilized and that are no longer aligned with our long-term business goals. For example, in 2008 we discontinued our Imaging Solutions business segment.

Interest Expense, Net. Our interest expense was incurred under the Predecessor Company s senior secured credit facility, the Predecessor Company s second priority senior secured notes and senior subordinated notes and the Successor Company s new term loan under the Successor Company. Our new term loan bore interest at six-month LIBOR plus 12%, and was minimally offset by interest income on cash balances. In April 2010, we repaid our new term loan with a portion of the proceeds from our sale of $250 million in aggregate principal amount of 10.500% senior notes due 2018. As a result of our reorganization, we expect that our interest expense will decrease in amount and as a percentage of net sales relative to historical periods. However, as a result of our senior notes offering, our interest expense will increase above that which was reported for the year ended December 31, 2010 to approximately $27.9 million per year.

Impact of Foreign Currency Exchange Rates on Reported Results of Operations. Historically, a portion of our revenues and greater than the majority of our operating expenses and costs of sales have been denominated in non-U.S. currencies, principally the Korean won, and we expect that this will remain true in the future. Because we report our results of operations in U.S. dollars, changes in the exchange rate between the Korean won and the U.S. dollar could materially impact our reported results of operations and distort period to period comparisons. In particular, because of the difference in the amount of our consolidated revenues and expenses that are in U.S. dollars relative to Korean won, depreciation in the U.S. dollar relative to the Korean won could result in a material increase in reported costs relative to revenues, and therefore could cause our profit margins and operating income (loss) from continuing operations to appear to decline materially, particularly relative to prior periods. The converse is true if the U.S. dollar were to appreciate relative to the Korean won. As a result of such foreign currency fluctuations, it could be more difficult to detect underlying trends in our business and results of operations. In addition, to the extent that fluctuations in currency exchange rates cause our results of operations to differ from our expectations or the expectations of our investors, the trading price of our stock could be adversely affected.

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For periods ended on or prior to October 25, 2009, we converted our non-U.S. revenues and expenses into U.S. dollars based on cumulative average exchange rates over the periods presented. Beginning on October 25, 2009, we convert our non-U.S. revenues and expenses into U.S. dollars based on monthly average exchange rates. The following table provides the cumulative average exchange rates that we used to convert Korean won into U.S. dollars for each of the periods ended on our prior to October 25, 2009, as well as the monthly average exchange rates used for the two-month period ended December 31, 2009 and for the year ended December 31, 2010:

Period	Rate
Year ended December 31, 2007	929:1
Year ended December 31, 2008	1,099:1
Ten-month period ended October 25, 2009	1,302:1
Two-month period ended December 31, 2009	
November 2009	1,172:1
December 2009	1,165:1
Year ended December 31, 2010	
January 2010	1,139:1
February 2010	1,157:1
March 2010	1,138:1
April 2010	1,117:1
May 2010	1,163:1
June 2010	1,212:1
July 2010	1,207:1
August 2010	1,180:1
September 2010	1,167:1
October 2010	1,123:1
November 2010	1,126:1
December 2010	1,148:1

As a result of the depreciation of the Korean won against the U.S. dollar from 2007 to 2008 and from 2008 to 2009, foreign currency fluctuations generally had a materially beneficial impact on our reported profit margins and operating income (loss) from continuing operations for such periods. In contrast, as a result of the appreciation of the Korean won against the U.S. dollar from the year ended December 31, 2009 to the year ended December 31, 2010, foreign currency fluctuations had a net unfavorable impact on our reported profit margins and operating income (loss) from continuing operations for the year ended December 31, 2010 compared to the prior period. In order to provide more detailed information regarding the impact of foreign currency fluctuations on our results of operations, in our discussion of period to period comparisons under the heading Results of Operations, we have included information regarding the impact of the year-to-year change in the Korean won/U.S. dollar exchange rate. The information, which is described below as the impact of the depreciation or appreciation of the Korean won against the U.S. dollar, measures the impact in the change in applicable monthly or cumulative average exchange rate for the most recent period discussed as compared to the applicable monthly or cumulative average exchange rate during the prior period. For net sales that were originally denominated in Korean won, we have compared the applicable monthly or cumulative average exchange rate in effect for the prior period against the applicable monthly or cumulative average exchange rate for the period in which the sale took place on a transaction-by-transaction basis. For cost of sales and other expenses, we have compared the applicable monthly or cumulative average exchange rate during the prior period to the applicable monthly or cumulative average exchange rate during the most recent period discussed and applied that to the amount of our aggregate cost of sales and other expenses for the period that were originally denominated in Korean won. A substantial portion of the net sales recorded at our Korean subsidiary are in U.S. dollars and are converted into Korean won for reporting purposes at the subsidiary level.

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Although this approach does not reflect the fluctuations of the currency exchange rates for every transaction on a day-to-day basis, we believe that it provides a useful indication of the magnitude of the exchange rate impact for the periods presented.

From time to time, we may engage in exchange rate hedging activities in an effort to mitigate the impact of exchange rate fluctuations. For example, in January 2010 and May 2010 our Korean subsidiary entered into foreign currency option and forward contracts in order to mitigate a portion of the impact of U.S. dollar-Korean won exchange rate fluctuations on our operating results. The January 2010 option and forward contracts require us to sell specified notional amounts in U.S. dollars and provide us the option to sell specified notional amounts in U.S. dollars during each month of 2010 commencing February 2010 to our counterparty, in each case, in exchange for Korean won at specified fixed exchange rates. The May 2010 option and forward contracts require us to sell specified notional amounts in U.S. dollars and provide us the option to sell specified notional amounts in U.S. dollars during the months of January 2011 through June 2011 to our counterparty, in each case, in exchange for Korean won at specified fixed exchange rates. In August 2010 our Korean subsidiary additionally entered into zero cost collar contracts for the same purpose with the above hedge contracts. The August 2010 zero cost collar contracts require us to sell specified notional amounts in U.S. dollars and provide us the option to sell specified notional amounts in U.S. dollars during the months of July 2011 through December 2011 to our counterparty, in each case, in exchange for Korean won at specified fixed exchange rates. In January 2011, our Korean subsidiary additionally entered into zero cost collar contracts for the same purpose with the above hedge contracts. The January 2011 zero cost collar contracts require us to sell specified notional amounts in U.S. dollars and provide us the option to sell specified notional amounts in U.S. dollars during the months of January 2012 through June 2012 to our counterparty, in each case, in exchange for Korean won at specified fixed exchange rates. Obligations under these foreign currency option, forward and zero cost collar contracts must be cash collateralized if our exposure exceeds certain specified thresholds. These option, forward and zero cost collar contracts may be terminated by the counterparty in a number of circumstances, including if our long-term debt rating falls below B-/B3 or if our total qualified and unrestricted cash and cash equivalents is less than $30 million at the end of a fiscal quarter. For further information regarding the derivative financial instruments, see note 11 to our audited consolidated financial statements for the year ended December 31, 2010 elsewhere in this prospectus.

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

Income Taxes. We record our income taxes in each of the tax jurisdictions in which we operate. This process involves using an asset and liability approach whereby deferred tax assets and liabilities are recorded for differences in the financial reporting bases and tax bases of our assets and liabilities. We exercise significant management judgment in determining our provision for income taxes, deferred tax assets and liabilities. We periodically evaluate our deferred tax assets to ascertain whether it is more likely than not that the deferred tax assets will be realized. Our income tax expense has been low in absolute dollars and as a percentage of net sales principally due to the availability of tax loss carry-forwards and we expect such rate to remain low for at least the next few years.

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

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

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

Principles of Consolidation. Our consolidated financial statements include the accounts of our company and our wholly-owned subsidiaries. All intercompany transactions and balances are eliminated in consolidation.

Segments. We operate in three segments: Display Solutions, Power Solutions and Semiconductor Manufacturing Services. Our Power Solutions segment began to generate net sales in the second quarter of 2008. Net sales and gross profit for the All other category primarily relate to certain business activities that do not constitute operating or reportable segments.

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Results of Operations

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

	Successor Company				Predecessor Company			
	Year Ended December 31, 2010		Two-Month Period Ended December 31, 2009		Ten-Month Period Ended October 25, 2009		Year Ended December 31, 2008	
	Amount	% of net sales	Amount	% of net sales	Amount	% of net sales	Amount	% of net sales
	(In millions)							
Consolidated statements of operations data:								
Net sales	$ 770.4	100.0%	$ 111.1	100.0%	$ 449.0	100.0%	$ 601.7	100.0%
Cost of sales	526.8	68.4	90.4	81.4	311.1	69.3	445.3	74.0
Gross profit	243.6	31.6	20.7	18.6	137.8	30.7	156.4	26.0
Selling, general and administrative expenses	66.6	8.6	14.5	13.1	56.3	12.5	81.3	13.5
Research and development expenses	83.5	10.8	14.7	13.3	56.1	12.5	89.5	14.9
Restructuring and impairment charges	2.0	0.3			0.4	0.1	13.4	2.2
Operating income (loss) from continuing operations	91.4	11.9	(8.6)	(7.7)	25.0	5.6	(27.7)	(4.6)
Interest expense, net	(22.9)	(3.0)	(1.3)	(1.1)	(31.2)	(6.9)	(76.1)	(12.7)
Foreign currency gain (loss), net	14.7	1.9	9.3	8.4	43.4	9.7	(210.4)	(35.0)
Reorganization items, net					804.6	179.2		
Others	(0.7)	(0.1)						
	(8.9)	(1.2)	8.1	7.3	816.8	181.9	(286.5)	(47.6)
Income (loss) from continuing operations before income taxes	82.5	10.7	(0.5)	(0.5)	841.8	187.5	(314.3)	(52.2)
Income tax expenses	8.4	1.1	1.9	1.8	7.3	1.6	11.6	1.9
Income (loss) from continuing operations	74.1	9.6	(2.5)	(2.2)	834.5	185.9	(325.8)	(54.2)
Income (loss) from discontinued operations, net of taxes			0.5	0.5	6.6	1.5	(91.5)	(15.2)
Net income (loss)	$ 74.1	9.6%	$ (2.0)	(1.8)%	$ 841.1	187.3%	$ (417.3)	(69.4)%
Net Sales:								
Display Solutions	$ 305.9	39.7%	$ 51.0	46.0%	$ 231.9	51.6%	$ 304.1	50.5%
Power Solutions	57.3	7.4	4.7	4.3	7.6	1.7	5.4	0.9
Semiconductor Manufacturing Services	405.2	52.6	54.8	49.3	206.7	46.0	287.1	47.7
All other	2.1	0.3	0.5	0.5	2.8	0.6	5.0	0.8
	$ 770.4	100.0%	$ 111.1	100.0%	$ 449.0	100.0%	$ 601.7	100.0%

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Results of Operations Comparison of Years Ended December 31, 2010 and December 31, 2009

The following table sets forth consolidated results of operations for the year ended December 31, 2010, the two-month period ended December 31, 2009 and the ten-month period ended October 25, 2009:

	Successor Company				Predecessor Company		
	Year Ended December 31, 2010		Two-Month Period Ended December 31, 2009		Ten-Month Period Ended October 25, 2009		
	Amount	% of Net Sales	Amount	% of Net Sales	Amount	% of Net Sales	Change Amount
				(In millions)			
Net sales	$ 770.4	100.0%	$ 111.1	100.0%	$ 449.0	100.0%	$ 210.3
Cost of sales	526.8	68.4	90.4	81.4	311.1	69.3	125.3
Gross profit	243.6	31.6	20.7	18.6	137.8	30.7	85.0
Selling, general and administrative expenses	66.6	8.6	14.5	13.1	56.3	12.5	(4.2)
Research and development expenses	83.5	10.8	14.7	13.3	56.1	12.5	12.6
Restructuring and impairment charges	2.0	0.3			0.4	0.1	1.6
Operating income (loss) from continuing operations	91.4	11.9	(8.6)	(7.7)	25.0	5.6	75.0
Interest expense, net	(22.9)	(3.0)	(1.3)	(1.1)	(31.2)	(6.9)	9.5
Foreign currency gain, net	14.7	1.9	9.3	8.4	43.4	9.7	(38.1)
Reorganization items, net					804.6	179.2	(804.6)
Others	(0.7)	(0.1)					(0.7)
	(8.9)	(1.2)	8.1	7.3	816.8	181.9	(833.8)
Income (loss) from continuing operations before income taxes	82.5	10.7	(0.5)	(0.5)	841.8	187.5	(758.8)
Income tax expenses	8.4	1.1	1.9	1.8	7.3	1.6	(0.9)
Income (loss) from continuing operations	74.1	9.6	(2.5)	(2.2)	834.5	185.9	(757.9)
Income from discontinued operations, net of taxes			0.5	0.5	6.6	1.5	(7.1)
Net income (loss)	$ 74.1	9.6%	$ (2.0)	(1.8)%	$ 841.1	187.3%	$ (765.0)

Net Sales

	Successor Company				Predecessor Company		
	Year Ended December 31, 2010		Two-Month Period Ended December 31, 2009		Ten-Month Period Ended October 25, 2009		
	Amount	% of Net Sales	Amount	% of Net Sales	Amount	% of Net Sales	Change Amount
				(In millions)			

Display Solutions	$ 305.9	39.7%	$ 51.0	46.0%	$ 231.9	51.6%	$ 22.9
Power Solutions	57.3	7.4	4.7	4.3	7.6	1.7	44.9
Semiconductor Manufacturing Services	405.2	52.6	54.8	49.3	206.7	46.0	143.8
All other	2.1	0.3	0.5	0.5	2.8	0.6	(1.3)
	$ 770.4	100.0%	$ 111.1	100.0%	$ 449.0	100.0%	$ 210.3

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Net sales were $770.4 million for the year ended December 31, 2010, a $210.3 million, or 37.6 %, increase compared to $560.1 million for the combined twelve-month period ended December 31, 2009, or $111.1 million for the two-month period ended December 31, 2009 and $449.0 million for the ten-month period ended October 25, 2009. This increase was primarily due to increases in our product sales volume driven by overall business recovery in the market, an improved product mix and a $16.5 million favorable impact resulting from the appreciation of the Korean won against the U.S. dollar, which were partially offset by a decrease in average selling prices.

Display Solutions. Net sales from our Display Solutions segment were $305.9 million for the year ended December 31, 2010, a $22.9 million, or 8.1%, increase compared to $282.9 million for the combined twelve-month period ended December 31, 2009, or $51.0 million for the two-month period ended December 31, 2009 and $231.9 million for the ten-month period ended October 25, 2009. The increase was primarily due to a 26.6% increase in sales volume. Sales volume increased as the consumer electronics industry began to recover from the economic slowdown and demand and shipments for certain consumer electronics products such as digital televisions, PCs and smart phones increased. This increase was partially offset by a 15.1% decrease in average selling prices, which was primarily from consumer price declines for LCD televisions, PC monitors and mobile devices.

Power Solutions. Net sales from our Power Solutions segment were $57.3 million for the year ended December 31, 2010, a $44.9 million, or 362.9%, increase compared to $12.4 million for the combined twelve-month period ended December 31, 2009, or $4.7 million for the two-month period ended December 31, 2009 and $7.6 million for the ten-month period ended October 25, 2009. The increase was primarily due to a 173.5% increase in sales volume and a 69.2% increase in average selling prices driven by an improved product mix and higher demand for MOSFET products from existing and new customers as we grew this business.

Semiconductor Manufacturing Services. Net sales from our Semiconductor Manufacturing Services segment were $405.2 million for the year ended December 31, 2010, a $143.8 million, or 55.0%, increase compared to $261.4 million for the combined twelve-month period ended December 31, 2009, or $54.8 million for the two-month period ended December 31, 2009 and $206.7 million for the ten-month period ended October 25, 2009. This increase was primarily due to a 52.1% increase in sales volume and 2.0% increase in average selling prices of eight-inch equivalent wafers driven by a strong market demand upside due to the recovery from the economic slowdown and an improved product mix of advanced process geometry.

All Other. Net sales from All other were $2.1 million for the year ended December 31, 2010, a $1.3 million, or 38.5%, decrease compared to $3.3 million for the combined twelve-month period ended December 31, 2009, or $0.5 million for the two-month period ended December 31, 2009 and $2.8 million for the ten-month period ended October 25, 2009. This decrease resulted from lower rental income due to the relocation of one lessee of our building.

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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 year ended December 31, 2010, the two-month period ended December 31, 2009 and the ten-month period ended October 25, 2009:

	Successor Company				Predecessor Company		
	Year Ended December 31, 2010		Two-Month Period Ended December 31, 2009		Ten-Month Period Ended October 25, 2009		
	Amount	% of Net Sales	Amount	% of Net Sales	Amount	% of Net Sales	Change Amount
				(In millions)			
Korea	$ 379.1	49.2%	$ 62.2	56.0%	$ 244.3	54.4%	$ 72.5
Asia Pacific	222.1	28.8	25.6	23.0	116.9	26.0	79.6
Japan	57.4	7.5	6.5	5.8	31.6	7.0	19.3
North America	95.2	12.4	14.9	13.4	48.5	10.8	31.8
Europe	14.9	1.9	1.9	1.7	7.7	1.7	5.4
Africa	1.7	0.2					1.7
	$ 770.4	100.0%	$ 111.1	100.0%	$ 449.0	100.0%	$ 210.3

Net sales in Korea for the year ended December 31, 2010 increased compared to the combined twelve-month period ended December 31, 2009, primarily due to the overall business recovery in the market and increased demand for Display Solutions products and Semiconductor Manufacturing Services. Net sales in Asia Pacific and North America for the year ended December 31, 2010 increased compared to the combined twelve-month period ended December 31, 2009, primarily due to the overall business recovery in the market and increased demand for Semiconductor Manufacturing Services and Power Solutions products.

Gross Profit

	Successor Company				Predecessor Company		
	Year Ended December 31, 2010		Two-Month Period Ended December 31, 2009		Ten-Month Period Ended October 25, 2009		
	Amount	% of Net Sales	Amount	% of Net Sales	Amount	% of Net Sales	Change Amount
				(In millions)			
Display Solutions	$ 78.2	25.6%	$ 8.7	17.1%	$ 61.8	26.6%	$ 7.6
Power Solutions	7.9	13.7	0.7	15.5	1.4	18.8	5.7
Semiconductor Manufacturing Services	155.5	38.4	10.7	19.5	71.8	34.8	73.0
All other	2.1	100.0	0.5	100.0	2.8	100.0	(1.3)
	$ 243.6	31.6%	$ 20.7	18.6%	$ 137.8	30.7%	$ 85.0

Total gross profit was $243.6 million for the year ended December 31, 2010 compared to $158.5 million for the combined twelve-month period ended December 31, 2009, or $20.7 million for the two-month period ended December 31, 2009 and $137.8 million for the ten-month period ended October 25, 2009, a $85.0 million, or 53.6%, increase. Gross profit as a percentage of net sales for the year ended December 31, 2010 increased to 31.6% compared to 28.3% for the combined twelve-

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month period ended December 31, 2009. This increase in gross margin was primarily attributable to increased sales volume and a positive favorable impact on cost of sales in 2010 by the fresh-start inventory valuation, partially offset by lower average selling prices and a $15.9 million unfavorable impact resulting from the appreciation of the Korean won against the U.S. dollar, which adversely impacted cost of sales to a greater extent than the favorable impact on net sales. Cost of sales for the year ended December 31, 2010 increased by $125.3 million compared to the combined twelve-month period ended December 31, 2009. The increase in cost of sales was primarily due to a $32.4 million unfavorable impact resulting from the appreciation of the Korean won against the U.S. dollar, a $27.0 million increase in material costs, a $40.0 million increase in labor costs resulting from the increased sales volume and the reinstatement of our salary levels from our company-wide voluntary salary reductions that were in effect in the first half of 2009, a $16.9 million increase in subcontractor costs due to the increased sales volume and a $22.4 million increase in overhead costs related to maintenance, repair and supplies expense incurred for maintaining higher levels of utilization of our manufacturing facilities.

Display Solutions. Gross margin for our Display Solutions segment for the year ended December 31, 2010 increased to 25.6% compared to 24.9% for the combined twelve-month period ended December 31, 2009 primarily due to a 26.6% increase in sales volume and improved product mix offset in part by lower average selling prices. Cost of sales for the year ended December 31, 2010 increased by $15.3 million compared to the combined twelve-month period ended December 31, 2009, primarily due to a $12.6 million unfavorable impact resulting from the appreciation of the Korean won against the U.S. dollar and a $10.2 million increase in labor costs resulting from the increased sales volume. The total increase was partially offset by the impact of the fresh-start step-up of our inventory valuation, which decreased by $6.4 million compared to 2009.

Power Solutions. Gross margin for our Power Solutions segment for the year ended December 31, 2010 decreased to 13.7% compared to 17.5% for the combined twelve-month period ended December 31, 2009. However, gross profit increased by $5.7 million for the year ended December 31, 2010 compared to the combined twelve-month period ended December 31, 2009 due to increased sales volume and average selling prices. Cost of sales for the year ended December 31, 2010 increased by $39.2 million compared to the combined twelve-month period ended December 31, 2009 primarily due to a $9.9 million increase in material costs, a $4.3 million increase in labor costs, a $16.8 million increase in subcontractor costs due to increased sales volume, a $3.9 million increase in overhead costs related to maintenance, repair and supplies expenses incurred for maintaining a higher level of utilization of our manufacturing facilities, and a $2.5 million unfavorable impact resulting from the appreciation of the Korean won against the U.S. dollar.

Semiconductor Manufacturing Services. Gross margin for our Semiconductor Manufacturing Services segment increased to 38.4% in the year ended December 31, 2010 from 31.6% in the combined twelve-month period ended December 31, 2009. This increase was primarily due to a decrease in unit cost of sales resulting from higher utilization of our manufacturing facilities and improved product mix. Gross profit increased by $73.0 million for the year ended December 31, 2010 compared to the combined twelve-month period ended December 31, 2009 due to increased sales volume and average selling prices. Cost of sales for the year ended December 31, 2010 increased by $70.8 million compared to the combined twelve-month period ended December 31, 2009, which was primarily attributable to a $17.3 million unfavorable impact resulting from the appreciation of the Korean won against the U.S. dollar, a $19.2 million increase in material costs and a $25.5 million increase in labor costs resulting from the increased sales volume and the reinstatement of our salary level from our company-wide voluntary salary reductions that were in effect in the first half of 2009 and $16.3 million increase in overhead costs related to maintenance, repair and supplies expense incurred for maintaining higher levels of utilization of our manufacturing facilities. The total increase was partially offset by the impact of the fresh-start step-up of our inventory valuation, which decreased by $10.9 million compared to 2009.

All Other. Gross margin for All other remained the same as there was no cost of sales in either period.

Operating Expenses

Selling, General and Administrative Expenses. Selling, general, and administrative expenses were $66.6 million, or 8.6% of net sales for the year ended December 31, 2010, compared to $70.8 million, or 12.6% of net sales for the combined twelve-month period ended December 31, 2009. The decrease of $4.2 million, or 5.9%, was primarily attributable to a $15.3 million decrease in outside service expenses, primarily due to a decrease in restructuring-related professional fees and related expenses. These decreases were partially offset by a $4.3 million unfavorable impact resulting from the appreciation of the Korean won against the U.S. dollar and a $7.3 million increase in salaries and severance benefits resulting from the reinstatement of our salary levels from our company-wide voluntary salary reductions that were in effect in the first half of 2009.

Research and Development Expenses. Research and development expenses for the year ended December 31, 2010 were $83.5 million, an increase of $12.6 million, or 17.8%, from $70.9 million for the combined twelve-month period ended December 31, 2009. This increase was due to a $5.8 million unfavorable impact resulting from the appreciation of the Korean won against the U.S. dollar, a $5.1 million increase in salaries and related expenses resulting from the reinstatement of our salary levels from our company-wide voluntary salary reductions that were in effect in the first half of 2009, a $1.9 million increase in material costs, a $1.1 million increase in outside service fees and a $4.2 million increase in amortization expenses due to the write-up of our intangible assets in accordance with fresh-start accounting. These increases were partially offset by a $5.3 million decrease in costs transferred from manufacturing to research and development expenses due to improved facilities utilization resulting from our higher net sales. Research and development expenses as a percentage of net sales were 10.8% in the year ended December 31, 2010, compared to 12.7% in the combined twelve-month period ended December 31, 2009.

Restructuring and Impairment Charges. Restructuring and impairment charges increased by $1.6 million in the year ended December 31, 2010 compared to the combined twelve-month period ended December 31, 2009. Impairment charges of $2.0 million recorded in the year ended December 31, 2010 were related to impairment of in-process research and development projects, which were accounted for as indefinite-lived intangible assets as part of the application of fresh-start accounting. Of the impairment charges of $2.0 million, $1.6 million of impairment charges were recognized for abandoned in-process research and development projects and $0.4 million of impairment charges were recognized as a result of our annual impairment test of in-process research and development. Restructuring charges of $0.4 million recorded in the combined twelve-month period ended December 31, 2009 were related to the closure of our research and development facilities in Japan.

Operating Income from Continuing Operations

As a result of the foregoing, operating income from continuing operations increased by $75.0 million, or 458.5%, in the year ended December 31, 2010 compared to the combined twelve-month period ended December 31, 2009. As discussed above, the increase in operating income from continuing operations was primarily a result of the 37.6% increase in net sales over the prior year, partially offset by a $12.6 million, or 17.8%, increase in research and development expenses during the same year. The increase in net sales for the year ended December 31, 2010 is mainly due to

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increased sales volume driven by overall business recovery in the market and an improved product mix, primarily in connection with our Semiconductor Manufacturing Services segment.

Other Income (Expense)

Interest Expense, Net. Net interest expense was $22.9 million during the year ended December 31, 2010, a decrease of $9.5 million compared to $32.4 million for the combined twelve-month period ended December 31, 2009. Interest expense for the year ended December 31, 2010 was incurred under our $250.0 million principal amount senior notes issued on April 9, 2010 and partially incurred under our new term loan, which was fully repaid on April 9, 2010. Interest expense for the combined twelve-month period ended December 31, 2009 was mainly incurred under our $750.0 million principal amount of notes and $95.0 million senior secured credit facility. Upon our emergence from reorganization proceedings, our $750.0 million notes were discharged pursuant to the reorganization plan. On November 6, 2009, $33.3 million of our senior secured credit facility was repaid in cash and $61.8 million was refinanced with the new term loan.

Foreign Currency Gain (Loss), Net. Net foreign currency gain for the year ended December 31, 2010 was $14.7 million, compared to net foreign currency gain of $52.8 million for the combined twelve-month period ended December 31, 2009. 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 Korean won and the U.S. dollar. Foreign currency translation gain from our 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 respective maturity dates. The Korean won to U.S. dollar exchange rates were 1,138.9:1 and 1,167.6:1 using the first base rate as of December 31, 2010 and December 31, 2009, respectively, as quoted by the Korea Exchange Bank.

Others. Others for the year ended December 31, 2010 was comprised of dividend income from our investment in equity instruments and loss on valuation of derivatives which were designated as hedging instruments. The majority of the loss was loss on valuation of derivatives which represents either hedge ineffectiveness or components of changes in fair value of derivatives excluded from the assessments of hedge effectiveness.

Income Tax Expenses. Income tax expenses for the year ended December 31, 2010 were $8.4 million, compared to income tax expenses of $9.2 million for the combined twelve-month period ended December 31, 2009. Income tax expenses for the year ended December 31, 2010 were comprised of $0.6 million of current income tax expenses, net incurred in various jurisdictions in which our overseas subsidiaries are located, $5.4 million of withholding taxes mostly accrued on intercompany interest payments, which would be utilized as foreign tax credits, but due to the uncertainty of utilization, full valuation allowance was recognized, $2.5 million of additional recognition of liabilities for uncertain tax positions and a $1.5 million income tax effect from the change of deferred tax assets less $1.6 million reversal of liabilities for uncertain tax positions due to the lapse of the applicable statute of limitations.

Income from Discontinued Operations, Net of Taxes

Income from Discontinued Operations, Net of Taxes. During 2008, we closed our Imaging Solutions business segment. During the combined twelve-month period ended December 31, 2009, we recognized net income of $7.1 million relating to our discontinued operations, largely due to the sales of patents related to our closed Imaging Solutions business segment, which resulted in an $8.3 million gain.

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Net Income (Loss)

As a result of the foregoing, net income decreased by $765.0 million in the year ended December 31, 2010 compared to the combined twelve-month period ended December 31, 2009. As discussed above, the decrease in net income was primarily due to $804.6 million decrease in net reorganization gain directly associated with our reorganization proceedings and primarily reflects the discharge of liabilities of $798.0 million, partially offset by an increase in operating income from continuing operations of $75.0 million, or 458.5%, compared to the combined twelve-month period ended December 31, 2009.

Results of Operations Comparison of Years Ended December 31, 2009 and December 31, 2008

The following table sets forth consolidated results of operations for the two-month period ended December 31, 2009, the ten-month period ended October 25, 2009 and the year ended December 31, 2008:

	Successor Company		Predecessor Company				
	Two-Month Period Ended December 31, 2009		Ten-Month Period Ended October 25, 2009		Year Ended December 31, 2008		
	Amount	% of net sales	Amount	% of net sales	Amount	% of net sales	Change Amount
			(In millions)				
Net sales	$ 111.1	100.0%	$ 449.0	100.0%	$ 601.7	100.0%	$ (41.6)
Cost of sales	90.4	81.4	311.1	69.3	445.3	74.0	(43.7)
Gross profit	20.7	18.6	137.8	30.7	156.4	26.0	2.1
Selling, general and administrative expenses	14.5	13.1	56.3	12.5	81.3	13.5	(10.5)
Research and development expenses	14.7	13.3	56.1	12.5	89.5	14.9	(18.6)
Restructuring and impairment charges			0.4	0.1	13.4	2.2	(12.9)
Operating income (loss) from continuing operations	(8.6)	(7.7)	25.0	5.6	(27.7)	(4.6)	44.1
Interest expense, net	(1.3)	(1.1)	(31.2)	(6.9)	(76.1)	(12.7)	43.7
Foreign currency gain (loss), net	9.3	8.4	43.4	9.7	(210.4)	(35.0)	263.2
Reorganization items, net			804.6	179.2			804.6
	8.1	7.3	816.8	181.9	(286.5)	(47.6)	1,111.5
Income (loss) from continuing operations before income taxes	(0.5)	(0.5)	841.8	187.5	(314.3)	(52.2)	1,155.5
Income tax expenses	1.9	1.8	7.3	1.6	11.6	1.9	(2.3)
Income (loss) from continuing operations	(2.5)	(2.2)	834.5	185.9	(325.8)	(54.2)	1,157.9
Income (loss) from discontinued operations, net of taxes	0.5	0.5	6.6	1.5	(91.5)	(15.2)	98.6
Net income (loss)	$ (2.0)	(1.8)%	$ 841.1	187.3%	$ (417.3)	(69.4)%	$ 1,256.4

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Net Sales

	Successor Company Two-Month Period Ended December 31, 2009		Predecessor Company Ten-Month Period Ended October 25, 2009		Year Ended December 31, 2008		
	Amount	% of net sales	Amount	% of net sales	Amount	% of net sales	Change Amount
			(In millions)				
Display Solutions	$ 51.0	46.0%	$ 231.9	51.6%	$ 304.1	50.5%	$ (21.2)
Power Solutions	4.7	4.3	7.6	1.7	5.4	0.9	6.9
Semiconductor Manufacturing Services	54.8	49.3	206.7	46.0	287.1	47.7	(25.7)
All other	0.5	0.5	2.8	0.6	5.0	0.8	(1.7)
	$ 111.1	100.0%	$ 449.0	100.0%	$ 601.7	100.0%	$ (41.6)

Net sales were $111.1 million for the two-month period ended December 31, 2009 and $449.0 million for the ten-month period ended October 25, 2009, or $560.1 million in aggregate, a $41.6 million, or 6.9%, decrease, compared to $601.7 million in 2008. Net sales generated in our three operating segments during 2009 in aggregate were $556.7 million, a decrease of $39.9 million, or 6.7%, from 2008. This decrease was principally due to the impact of the depreciation of the Korean won against the U.S. dollar in the amount of $17.6 million and a decrease in average selling prices of our products, both of which were partially offset by increases in product sales volume. Among our segments, net sales decreased for our Display Solutions and our Semiconductor Manufacturing Service segments which was offset in part by an increase in net sales from our Power Solutions segment.

Display Solutions. Net sales from Display Solutions were $51.0 million for the two-month period ended December 31, 2009 and $231.9 million for the ten-month period ended October 25, 2009, or $282.9 million in aggregate, a $21.2 million, or 7.0%, decrease from $304.1 million for 2008. The decrease resulted from a 24.9% decrease in average selling prices, primarily from display driver products for LCD televisions, PC monitors and mobile devices. The reduction in average selling prices in 2009 resulted in part from reduced demand for consumer electronics products generally, and new products in particular, during the first half of 2009 as a result of the worldwide economic slowdown. These decreases in average selling prices were partially offset by a 24.6% increase in sales volume. Volume increased in the second half of 2009 as the consumer electronics industry began to recover from the economic slowdown as demand and shipments for consumer electronics products such as digital televisions, PCs, and smartphones increased.

Power Solutions. Net sales from Power Solutions were $4.7 million for the two-month period ended December 31, 2009 and $7.6 million for the ten-month period ended October 25, 2009, or $12.4 million in aggregate, a $6.9 million, or 127.6%, increase from $5.4 million for 2008. The increase resulted from a 221.3% increase in sales volume, most of which was attributable to higher demand for MOSFET products driven by our existing and new customers. Such increases in volume were partially offset by a 29.4% decrease in average sales prices. We were able to attract new customers, largely due to MOSFET products utilized in high voltage technologies and computing solutions.

Semiconductor Manufacturing Services. Net sales from Semiconductor Manufacturing Services were $54.8 million for the two-month period ended December 31, 2009 and $206.7 million for the ten-month period ended October 25, 2009, or $261.4 million in aggregate, a $25.7 million, or 8.9%,

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decrease compared to net sales of $287.1 million for 2008. This decrease was primarily due to a 0.5% decrease in sales volume and 3.4% decrease in average selling price of eight-inch equivalent wafers given decreased market demand for such products.

All other. Net sales from All other were $0.5 million for the two-month period ended December 31, 2009 and $2.8 million for the ten-month period ended October 25, 2009, or $3.3 million in aggregate compared to $5.0 million for 2008. This decrease of $1.7 million, or 33.6%, resulted from lower rental income due to the relocation of one of the lessees of one of our buildings.

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 two-month period ended December 31, 2009, the ten-month period ended October 25, 2009 and the year ended December 31, 2008:

	Successor Company		Predecessor Company				
	Two-Month Period Ended December 31, 2009		Ten-Month Period Ended October 25, 2009		Year Ended December 31, 2008		
	Amount	% of net sales	Amount	% of net sales	Amount	% of net sales	Change Amount
			(In millions)				
Korea	$ 62.2	56.0%	$ 244.3	54.4%	$ 301.0	50.0%	$ 5.5
Asia Pacific	25.6	23.0	116.9	26.0	144.5	24.0	(2.0)
Japan	6.5	5.8	31.6	7.0	79.9	13.3	(41.8)
North America	14.9	13.4	48.5	10.8	61.3	10.2	2.0
Europe	1.9	1.7	7.7	1.7	14.9	2.5	(5.4)
	$ 111.1	100.0%					