LEMAITRE VASCULAR INC
Form 8-K
July 30, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 8-K

Current Report

Pursuant to Section 13 or 15(d)

of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): July 30, 2013

LeMaitre Vascular, Inc.

(Exact name of registrant as specified in its charter)

Commission File Number: 001-33092

Delaware	**04-2825458**
(State or other jurisdiction of	**(IRS Employer**

incorporation)	**Identification No.)**

63 Second Avenue

Burlington, MA 01803

(Address of principal executive offices, including zip code)

781-221-2266

(Registrant s telephone number, including area code)

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

¨ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02. Results of Operations and Financial Condition

On July 30, 2013, LeMaitre Vascular, Inc. (the Company) issued a press release regarding its financial and operational results for the second quarter ended June 30, 2013. A copy of the press release is furnished as Exhibit 99.1 to this report.

The information in this report, including the Exhibit attached hereto, is intended to be furnished and shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934 (the Exchange Act) or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Exchange Act, except as expressly set forth by specific reference in such filing.

Item 9.01. Financial Statements and Exhibits

The following exhibit is furnished as part of this report, where indicated:

(d) Exhibits.

Exhibit No.	**Description**
99.1	Press release issued by LeMaitre Vascular, Inc. on July 30, 2013.

Signature(s)

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

		LeMaitre Vascular, Inc.
Date: July 30, 2013	By:	Joseph P. Pellegrino, Jr.
		/s/ JOSEPH P. PELLEGRINO, JR. Joseph P. Pellegrino, Jr.
		Chief Financial Officer

Exhibit Index

Exhibit No.	Description
99.1	Press release issued by LeMaitre Vascular, Inc. on July 30, 2013.

0;">

Curtailment loss
—

769

1,089

769

Settlement loss (gain)
—

168

(100
)

168

Total pension expense
1,685

$
2,760

$
6,186

$
6,303

During the nine months ended September 30, 2012, we recognized net curtailment and settlement losses of $1.0 million resulting from the remeasurement of our defined benefit plan in Japan due to reductions in workforce (Note 18). During the three and nine months ended September 30, 2011, we recognized curtailment and settlement losses of $0.9 million resulting from the remeasurement of our defined benefit plan in the Philippines due to reductions in workforce (Note 18).

AMKOR TECHNOLOGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

For the three and nine months ended September 30, 2012, we contributed $0.1 million and $0.3 million to the pension plans, respectively. We expect to contribute approximately $3.1 million to the pension plans during the remainder of 2012. For the three and nine months ended September 30, 2011, we contributed $3.2 million and $3.4 million to the pension plans, respectively.

Korean Severance Plan

Our Korean subsidiary participates in an accrued severance plan that covers employees with at least one year of service. To the extent eligible employees are terminated, our Korean subsidiary would be required to make lump-sum severance payments on behalf of these eligible employees based on their length of service, seniority and rate of pay at the time of termination. Accrued severance benefits are estimated assuming all eligible employees were to terminate their employment at the balance sheet date. Our contributions to the National Pension Plan of the Republic of Korea are deducted from accrued severance benefit liabilities.

The provision recorded for severance benefits for the three months ended September 30, 2012 and 2011, was $7.0 million and $8.1 million, respectively. The provision recorded for severance benefits for the nine months ended September 30, 2012 and 2011, was $14.6 million and $21.6 million, respectively. The balance of our Korean severance obligation consists of the following:

	September 30, 2012	December 31, 2011
	(In thousands)	
Current (Accrued expenses)	$8,055	$7,476
Non-current (Pension and severance obligations)	111,765	99,000
Total Korean severance obligation	$119,820	$106,476

14. Treasury Stock

Stock Repurchase Program

Our Board of Directors previously authorized the repurchase of up to $300.0 million of our common stock, $150.0 million in August 2011 and $150.0 million in February 2012, exclusive of any fees, commissions or other expenses. The purchase of stock under the program may be made in the open market or through privately negotiated transactions. The timing, manner, price and amount of any repurchases will be determined by us at our discretion and will depend upon a variety of factors including economic and market conditions, the cash needs and investment opportunities for the business, price, applicable legal requirements and other factors. Our stock repurchase program may be suspended or discontinued at any time.

During the three and nine months ended September 30, 2012, we purchased 8.4 million and 16.5 million shares of common stock for an aggregate purchase price of $41.8 million and $79.5 million, respectively, net of $0.2 million and $0.3 million of commissions, respectively, for an average price of $4.99 and $4.83, respectively. During the three and nine months ended September 30, 2011, we purchased 10.9 million shares of common stock for an aggregate purchase price of $48.7 million, net of $0.2 million of commissions, for an average price of $4.47. Since inception of the program, we have purchased a total of 45.0 million shares at an aggregate purchase price of $208.4 million, net of $0.9 million of commissions. At September 30, 2012, approximately $91.6 million was available to repurchase

common stock pursuant to the stock repurchase program.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

15. Fair Value Measurements

The accounting framework for determining fair value includes a hierarchy for ranking the quality and reliability of the information used to measure fair value, which enables the reader of the financial statements to assess the inputs used to develop those measurements. The fair value hierarchy consists of three tiers as follows: Level 1, defined as quoted market prices in active markets for identical assets or liabilities; Level 2, defined as inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, model-based valuation techniques for which all significant assumptions are observable in the market or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities and Level 3, defined as unobservable inputs that are not corroborated by market data.

Our assets and liabilities recorded at fair value on a recurring basis include cash equivalent money market funds and restricted cash money market funds. Cash equivalent money market funds and restricted cash money market funds are invested in U.S. money market funds and various U.S. and foreign bank operating and time deposit accounts, which are due on demand or carry a maturity date of less than three months when purchased. No restrictions have been imposed on us regarding withdrawal of balances with respect to our cash equivalents as a result of liquidity or other credit market issues affecting the money market funds we invest in or the counterparty financial institutions holding our deposits. Money market funds are valued using quoted market prices in active markets for identical assets. We also measure certain assets and liabilities, including property, plant and equipment, intangible assets and an equity investment, at fair value on a nonrecurring basis. For the three and nine months ended September 30, 2012, such measurements included the consideration of third party valuation reports based on a combination of market and cost approach valuation techniques. The valuation reports contained various inputs including semiconductor industry data, replacement costs, price lists and general information regarding the assets being evaluated. Nonrecurring fair value measurements related to property, plant and equipment impairments reflect the fair value of the assets at the dates the impairments were taken during the period. Our fair value measurements consist of the following:

	For the Three Months Ended September 30, 2012	For the Nine Months Ended September 30, 2012	September 30, 2012	For the Three Months Ended September 30, 2011	For the Nine Months Ended September 30, 2011	December 31, 2011
	Gains (Losses)	Gains (Losses)	Fair Value	Gains (Losses)	Gains (Losses)	Fair Value
	(In thousands)					
Recurring fair value measurements:						
Cash equivalent money market funds (Level 1)			$ 178,322			$ 165,540
Restricted cash money market funds (Level 1)			2,680			2,680
Nonrecurring fair value measurements:						

Long-lived assets held for use or disposal (Level 3)	$(250)	$(586)	$ 868	$(1,335)	$(2,484)

For the three and nine months ended September 30, 2012 and 2011, all impairment losses on property, plant and equipment were recorded as cost of sales.

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(Unaudited)

We measure the fair value of our debt on a quarterly basis for disclosure purposes. The following table presents the fair value of financial instruments that are not recorded at fair value on a recurring basis:

	September 30, 2012		December 31, 2011	
	Fair Value	Carrying Value	Fair Value	Carrying Value
	(In thousands)			
Senior notes (Level 1)	$1,068,500	$1,045,000	$737,049	$745,000
Convertible senior subordinated notes (Level 1)	404,350	250,000	405,625	250,000
Subsidiary revolvers and term loans (Level 2)	331,711	332,140	352,679	351,651
Total debt	$1,804,561	$1,627,140	$1,495,353	$1,346,651

The estimated fair value of the debt is based primarily on quoted market prices reported on or near the balance sheet date for our senior and senior subordinated notes. The estimated fair value for the debt of our subsidiaries is based on market based assumptions including current borrowing rates for similar types of borrowing arrangements adjusted for duration, optionality and risk profile.

16. Commitments and Contingencies

We have a letter of credit sub-facility of $25.0 million under our $150.0 million senior secured revolving credit facility that matures in June 2017. As of September 30, 2012, we had $0.3 million of standby letters of credit outstanding and had an additional $24.7 million available for letters of credit. Such standby letters of credit are used in the ordinary course of our business and are collateralized by our cash balances.

We generally warrant that our services will be performed in a professional and workmanlike manner and in compliance with our customers' specifications. We accrue costs for known warranty issues. Historically, our warranty costs have been immaterial.

Legal Proceedings

We are involved in claims and legal proceedings and may become involved in other legal matters arising in the ordinary course of our business. We evaluate these claims and legal matters on a case-by-case basis to make a determination as to the impact, if any, on our business, liquidity, results of operations, financial condition or cash flows. Except as indicated below, we currently believe that the ultimate outcome of these claims and proceedings, individually and in the aggregate, will not have a material adverse impact to us. Our evaluation of the potential impact of these claims and legal proceedings on our business, liquidity, results of operations, financial condition or cash flows could change in the future. Attorney fees related to legal matters are expensed as incurred.

In accordance with the accounting guidance for loss contingencies, including pending claims, legal proceedings and other legal matters, we accrue for a loss contingency when we conclude that the likelihood of a loss is probable and the amount of the loss can be reasonably estimated. When the reasonable estimate of the loss is within a range of amounts, and no amount in the range constitutes a better estimate than any other amount, we accrue for the amount at the low end of the range. We adjust our accruals from time to time as we receive additional information, but the loss we incur may be significantly greater than or less than the amount we have accrued. We disclose loss contingencies if there is at least a reasonable possibility that a loss has been incurred.

Arbitration Proceedings with Tessera, Inc.

On March 2, 2006, Tessera, Inc. (“Tessera”) filed a request for arbitration with the International Court of Arbitration of the International Chamber of Commerce (the “ICC”), captioned Tessera, Inc. v. Amkor Technology, Inc. (the "First Tessera Arbitration"). The subject matter of the arbitration was a license agreement (“License Agreement”) entered into between Tessera and our predecessor in 1996. In its rulings in 2008 and 2009, the arbitration panel in the First Tessera Arbitration

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AMKOR TECHNOLOGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

found that most of the packages accused by Tessera were not subject to the patent royalty provisions of the License Agreement, awarded Tessera $60.6 million as damages for some infringing packages for the period March 2, 2002, through December 1, 2008, and denied Tessera's request to terminate the License Agreement. The final award, plus interest and the royalties through December 2008 amounting to $64.7 million, was expensed in 2008 and paid when due in February 2009.

Following Tessera's favorable decision in the U.S International Trade Commission (the “ITC”) in May 2009 against some of our customers, Tessera began making repeated statements to customers and others claiming that we were in breach of the royalty provisions of the License Agreement. We informed Tessera that we believed we were in full compliance with the License Agreement and of our intent to continue making the royalty payments when due in accordance with the terms of the License Agreement.

On August 7, 2009, we filed a request for arbitration in the ICC against Tessera, captioned Amkor Technology, Inc. v. Tessera, Inc. (the “Second Tessera Arbitration”). We instituted the action in order to obtain declaratory relief confirming that we were a licensee in good standing under our 1996 License Agreement with Tessera and that the License Agreement remained in effect.

On November 2, 2009, Tessera filed an answer to our request for arbitration and counterclaims in the ICC. In the answer and counterclaims, Tessera denied Amkor's claims, alleged breach of contract, sought termination of the License Agreement and asserted that Amkor owed Tessera additional royalties under the License Agreement, including royalties for use of thirteen U.S. and six foreign patents that Tessera did not assert in the First Tessera Arbitration. Tessera later dropped its claims on five of those patents. On February 17, 2011, Tessera sent Amkor a notice of termination of the License Agreement.

In May 2011, Tessera filed a new request for arbitration against Amkor with the ICC captioned Tessera, Inc. v. Amkor Technology, Inc. (the "Third Tessera Arbitration") seeking undisclosed damages and a declaration that the License Agreement had been terminated.

In July 2011, the panel issued its decision in the first phase of the Second Tessera Arbitration. The panel found that we did not owe any of the approximately $18 million of additional royalties claimed by Tessera for packages assembled by us for customers who had been involved in proceedings with Tessera before the ITC. Our request for a declaration confirming that we were in compliance with the License Agreement and that our royalty calculations from the First Tessera Arbitration were correct was denied. The panel found that we had materially breached the License Agreement by not paying the full amount of royalties due and by failing to satisfy the audit provisions of the License Agreement. The final amount of royalties and interest owed relating to the first phase of the Second Tessera Arbitration was approximately $0.5 million, which has been fully paid.

On July 5, 2012, the panel issued an interim order in the second phase of the Second Tessera Arbitration finding that royalties are due to Tessera on three of the ten asserted U.S. patents remaining at issue but not on the other seven, royalties are due on four foreign patents related to U.S. patents that the panel found to be royalty bearing in the First Tessera Arbitration and that the License Agreement was terminated by Tessera as of February 17, 2011. We do not believe the termination of the license agreement will interfere in any significant way with our ability to use our technology, conduct our business or service our customers.

The panel reserved for later decision the issues of the amount of royalties and pre-judgment interest due, the allocation of costs and the question of whether Tessera intends to pursue its allegations regarding other patents which have not yet been addressed by the panel. In July 2012, Tessera publicly announced its intention to seek an amount in excess of $125 million in the arbitration and informed the panel that it intends to proceed on its claims related to three additional U.S. patents.

We recorded a charge of $34.0 million for the three months ended June 30, 2012, based on our estimates of the damages and interest due to date in respect of the Second Tessera Arbitration. We believe that $34.0 million of damages and interest is a reasonable estimate of the low end of the possible range of loss up to the amount claimed by Tessera. Because we believe that no amount in the range constitutes a better estimate than any other amount, we recorded the $34.0 million estimate. Of our total accrual, $30.0 million was recorded as cost of goods sold and $4.0 million was recorded as interest expense. The ultimate amount of damages and interest is subject to determination by the panel based on a number of

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

complex factors, including the panel's determination of which package families the patents apply to, whether those packages meet criteria previously laid out by the panel, overlaps among the packages, the final date through which royalties are applicable and other factors. The final award could be more than the amount currently accrued, and we expect to record our estimate of interest accruing with the passage of time and may record additional charges as information develops or upon the issuance of the final award.

In August 2012, we paid $19.9 million to Tessera representing the undisputed amount and related interest that we owe in connection with the Second Tessera Arbitration.

On July 6, 2012, Tessera filed a complaint in the U.S. District Court for the District of Delaware. The complaint seeks injunctive relief and damages with respect to Amkor's alleged infringement of one of the U.S. patents that the panel found to be royalty bearing in the Second Tessera Arbitration. We strongly dispute Tessera's claims and intend to vigorously defend against them. However, the outcome of this matter is uncertain, and an adverse decision could have a material adverse effect on our results of operations, financial condition and cash flows.

Amkor Technology, Inc. v. Carsem (M) Sdn Bhd, Carsem Semiconductor Sdn Bhd, and Carsem Inc.

On November 17, 2003, we filed a complaint against Carsem (M) Sdn Bhd, Carsem Semiconductor Sdn Bhd, and Carsem Inc. (collectively “Carsem”) with the ITC in Washington, D.C., alleging infringement of our United States Patent Nos. 6,433,277; 6,455,356 and 6,630,728 (collectively the “Amkor Patents”) and seeking, under Section 337 of the Tariff Act of 1930, an exclusion order barring the importation by Carsem of infringing products. We allege that by making, using, selling, offering for sale or importing into the U.S. the Carsem Dual and Quad Flat No-Lead Packages, Carsem has infringed on one or more of our MicroLeadFrame packaging technology claims in the Amkor Patents.

On November 18, 2003, we also filed a complaint in the U.S. District Court for the Northern District of California, alleging infringement of the Amkor Patents and seeking an injunction enjoining Carsem from further infringing the Amkor Patents, compensatory damages and treble damages due to willful infringement plus interest, costs and attorney's fees. This District Court action has been stayed pending resolution of the ITC case.

The ITC Administrative Law Judge (“ALJ”) conducted an evidentiary hearing during July and August of 2004 in Washington D.C. and, on November 18, 2004, issued an Initial Determination that Carsem infringed some of our patent claims relating to our MicroLeadFrame package technology, that some of our 21 asserted patent claims are valid, that we have a domestic industry in our patents and that all of our asserted patent claims are enforceable. However, the ALJ did not find a statutory violation of Section 337 of the Tariff Act.

We filed a petition in November 2004 to have the ALJ's ruling reviewed by the full ITC. On March 31, 2005, the ITC ordered a new claims construction related to various disputed claim terms and remanded the case to the ALJ for further proceedings. On November 9, 2005, the ALJ issued an Initial Determination on remand finding that Carsem infringed some of our patent claims and that Carsem had violated Section 337 of the Tariff Act.

On remand, the ITC had also authorized the ALJ to reopen the record on certain discovery issues related to a subpoena of documents from a third party. An order by the U.S. District Court for the District of Columbia enforcing the subpoena became final on January 9, 2009, and the third party produced documents pursuant to the subpoena.

On July 1, 2009, the ITC remanded the investigation for a second time to the ALJ to reopen the record to admit into evidence documents and related discovery obtained from the enforcement of the above-referenced third-party subpoena.

Following a two-day hearing, on October 30, 2009, the ALJ issued an Initial Determination reaffirming his prior ruling that the Carsem Dual and Quad Flat No-Lead Packages infringe some of Amkor's patent claims relating to MicroLeadFrame package technology, that all of Amkor's asserted patent claims are valid and that Carsem violated Section 337 of the Tariff Act.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

On December 16, 2009, the ITC ordered a review of the ALJ's Initial Determination. On February 18, 2010, the Commission reversed a finding by the ALJ on the issue of whether a certain invention constitutes prior art to Amkor's asserted patents. The ITC remanded the investigation to the ALJ to make further findings in light of the ITC's ruling. On March 22, 2010, the ALJ issued a Supplemental Initial Determination. Although the ALJ's ruling did not disturb the prior finding that certain Carsem Dual and Quad Flat No-Lead Packages infringe some patent claims of Amkor's U.S. Patent No. 6,433,277 (the "'277 Patent"), the ALJ found that these infringed claims are invalid and, as a result, the ALJ did not find a statutory violation of the Tariff Act. On July 20, 2010, the ITC issued a Notice of Commission Final Determination, in which the ITC determined that there is no violation of Section 337 of the Tariff Act and terminated the investigation. We appealed the ITC's ruling of invalidity for the claims of the '277 Patent to the U.S. Court of Appeals for the Federal Circuit (the "Federal Circuit"), and oral arguments were heard in November 2011.

On August 22, 2012, the Federal Circuit issued a favorable ruling in Amkor's appeal in its patent infringement case against Carsem before the ITC. In its ruling, the Federal Circuit reversed the ITC's determination of invalidity on the '277 Patent, and remanded the matter to the ITC for further proceedings consistent with its opinion. On October 5, 2012, Carsem filed a Petition for Rehearing requesting the Federal Circuit to vacate its decision and affirm the ITC's determination of no violation of Section 337 of the Tariff Act.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

17. Business Segments

We have two reportable segments, packaging and test. Packaging and test are integral steps in the process of manufacturing semiconductor devices, and our customers may engage with us for both packaging and test services, or for packaging or test services individually.

The accounting policies for segment reporting are the same as those for our Consolidated Financial Statements as a whole. We evaluate our operating segments based on gross profit and gross property, plant and equipment. We do not specifically identify and allocate total assets by operating segment. Summarized financial information concerning reportable segments is shown in the following table. The “other” column includes corporate adjustments, gross property, plant and equipment of our corporate and sales offices and capital additions that do not directly support manufacturing operations, such as research and development and infrastructure projects.

	Packaging	Test	Other	Total
	(In thousands)			
Three months ended September 30, 2012				
Net sales	$615,933	$79,420	$—	$695,353
Depreciation expense	60,493	24,679	—	85,172
Gross profit	96,550	20,237	—	116,787
Capital additions	63,982	92,737	16,698	173,417
Three months ended September 30, 2011				
Net sales	$667,301	$72,655	$51	$740,007
Depreciation expense	53,924	20,641	106	74,671
Gross profit	104,654	17,909	(324)	122,239
Capital additions	78,770	35,532	9,067	123,369
Nine months ended September 30, 2012				
Net sales	$1,808,111	$228,779	$—	$2,036,890
Depreciation expense	177,294	69,866	—	247,160
Gross profit	251,851	59,237	—	311,088
Capital additions	184,836	176,966	84,965	446,767
Nine months ended September 30, 2011				
Net sales	$1,877,470	$214,997	$123	$2,092,590
Depreciation expense	162,508	61,526	207	224,241
Gross profit	325,339	54,058	(655)	378,742
Capital additions	200,648	77,122	47,580	325,350
Gross property, plant and equipment				
September 30, 2012	$3,365,641	$1,060,821	$151,049	$4,577,511
December 31, 2011	3,217,308	880,611	149,696	4,247,615

AMKOR TECHNOLOGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)
(Unaudited)

18. Exit Activities and Reductions in Force

As part of our ongoing efforts to improve our manufacturing operations and manage costs, we regularly evaluate our staffing levels and facility requirements compared to business needs. The following table summarizes our exit activities and reduction in force initiatives associated with these efforts. “Charges” represents the initial charge related to the exit activity. “Cash Payments” consists of the utilization of “Charges.” “Non-cash Amounts” consists of pension plan curtailments and settlements and foreign currency adjustments.

	Employee Separation Costs
	(In thousands)
Accrual at December 31, 2011	$—
Charges	7,160
Cash Payments	(6,209)
Non-cash Amounts	(951)
Accrual at September 30, 2012	$—

	Employee Separation Costs
	(In thousands)
Accrual at December 31, 2010	$670
Charges	4,811
Cash Payments	(4,518)
Non-cash Amounts	(936)
Accrual at September 30, 2011	$27

Reductions in Force

During the nine months ended September 30, 2012, we reduced our workforce by approximately 120 employees at our manufacturing operations in Japan. We recorded $7.2 million in charges for one-time termination benefits including $1.0 million in net curtailment and settlement charges, of which $5.5 million, $1.6 million and $0.1 million were charged to cost of sales; selling, general and administrative expenses and research and development expenses, respectively. All amounts were paid prior to September 30, 2012.

During the nine months ended September 30, 2011, we reduced our workforce by approximately 500 employees at our manufacturing operations in the Philippines. We recorded $4.8 million in charges for one-time termination benefits including $0.9 million in curtailment and settlement charges, of which $4.4 million and $0.4 million were charged to cost of sales and selling, general and administrative expenses, respectively. All amounts were paid prior to September 30, 2011.

Singapore Manufacturing Operations

In June 2009, we communicated to our employees the decision to wind-down and exit our manufacturing operations in Singapore. We completed our exit as of December 31, 2010. This wind-down affected approximately 600

employees and enabled us to improve our cost structure by consolidating factories. The majority of the machinery and equipment was relocated to and utilized in other factories. In June 2011, we sold the facility in Singapore for $13.3 million in cash, net of goods and services tax, and recorded a gain of less than $0.1 million, with no net tax effect.

The liability for one-time involuntary termination benefits for employees that provided service beyond a minimum retention period was recognized over the service period. During the three and nine months ended September 30, 2011, charges for termination benefits were not significant. All amounts accrued at September 30, 2011 were classified in current liabilities.

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

MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This report contains forward-looking statements within the meaning of the federal securities laws, including but not limited to statements regarding: (1) anticipated demand for our services related to smartphones and tablets, (2) the amount, timing and focus of our expected capital investments, (3) our ability to fund our operating activities for the next twelve months, (4) the effect of capacity utilization rates on our gross margin, (5) the focus of our research and development activities, (6) the expiration of tax holidays in jurisdictions in which we operate and expectations regarding our effective tax rate, (7) the release of valuation allowances related to taxes in the future, (8) the expected use of future cash flows, if any, for the expansion of our business, capital expenditures, the repayment of debt and the repurchase of common stock, (9) our repurchase or repayment of outstanding debt or the conversion of debt in the future, (10) payment of dividends, (11) compliance with our covenants, (12) expected contributions to foreign pension plans, (13) liability for unrecognized tax benefits, (14) the effect of foreign currency exchange rate exposure on our financial results, (15) the volatility of the trading price of our common stock, (16) changes to our internal controls related to implementation of a new enterprise resource planning (“ERP”) system, (17) the timing and amount of the charge and cash payment in respect of the final award in the Tessera arbitration, (18) the timing, costs, benefits and features of the Incheon, Korea facility project and (19) other statements that are not historical facts. In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “potential,” “continue,” “intend” or the negative of these terms or other comparable terminology. Because such statements include risks and uncertainties, actual results may differ materially from those anticipated in such forward-looking statements as a result of certain factors, including those set forth in the following discussion as well as in Part II, Item 1A of this Quarterly Report. The following discussion provides information and analysis of our results of operations for the three and nine months ended September 30, 2012, and our liquidity and capital resources. You should read the following discussion in conjunction with Item 1 in this Quarterly Report as well as other reports we file with the Securities and Exchange Commission (“SEC”).

Overview

Amkor is one of the world's leading providers of outsourced semiconductor packaging and test services. Packaging and test are integral steps in the process of manufacturing semiconductor devices. The semiconductor manufacturing process begins with the fabrication of tiny transistor elements into complex patterns of electronic circuitry on silicon wafers, thereby creating large numbers of individual semiconductor devices or integrated circuits on each wafer (generally referred to as “chips” or “die”). Each device on the wafer is tested, and the wafer is cut into pieces called chips. The chips are attached through wirebonding to a substrate or leadframe, or to a substrate in the case of flip chip interconnect, and then encased in a protective material to create a package. For a wafer-level package, the electrical interconnections are created directly on the surface of the wafer without a substrate or leadframe. The packages are then tested using sophisticated equipment to ensure that each packaged chip meets its design and performance specifications.

Our packages are designed based on application and chip specific requirements including the type of interconnect technology employed, size, thickness and electrical, mechanical and thermal performance. We are able to provide turnkey packaging and test services including semiconductor wafer bump, wafer probe, wafer backgrind, package design, packaging, test and drop shipment services.

Our customers include, among others: Altera Corporation; Analog Devices, Inc.; Broadcom Corporation; Infineon Technologies AG; International Business Machines Corporation; LSI Corporation; Qualcomm Incorporated; ST

Microelectronics N.V.; Texas Instruments Incorporated and Toshiba Corporation. The outsourced semiconductor packaging and test market is very competitive. We also compete with the internal semiconductor packaging and test capabilities of many of our customers.

Our net sales decreased $44.7 million or 6.0% to $695.4 million for the three months ended September 30, 2012, from $740.0 million for the three months ended September 30, 2011. The decrease was driven by a decline of $51.4 million or 7.7% in packaging net sales primarily as a result of weakness in demand for wirebond array packages. The decrease in packaging net sales was partially offset by a $6.8 million or 9.3% increase in our test net sales. The increase in test net sales was the result of strength in the communications end market.

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Gross margin for the three months ended September 30, 2012, increased to 16.8% from 16.5% for the three months ended September 30, 2011. Gross margin for the three months ended September 30, 2011, included a charge for restructuring activities, and gross margin for the three months ended September 30, 2012, reflected the benefit from prior restructuring efforts. The increase in gross margin was also due to favorable foreign currency exchange rate movements, partially offset by increased depreciation expense as a result of our continued investment in property, plant and equipment.

Our capital additions totaled $446.8 million or 21.9% of net sales for the nine months ended September 30, 2012, compared to $325.4 million or 15.5% of net sales for the nine months ended September 30, 2011. During the nine months ended September 30, 2012, 41.4% of our capital additions were made in packaging, 39.6% in test and 19.0% for research and development and infrastructure projects. During the nine months ended September 30, 2011, 61.7% of our capital additions were made in packaging, 23.7% in test and 14.6% for research and development and infrastructure projects.

For the nine months ended September 30, 2012, we experienced negative free cash flow of $95.9 million, primarily due to our capital purchases to support anticipated customer demand for packaging and test services related to smartphones and tablets. We define free cash flow as net cash provided by operating activities less purchases of property, plant and equipment. Free cash flow is not defined by U.S. generally accepted accounting principles (“U.S. GAAP”), and a reconciliation of free cash flow to net cash provided by operating activities is set forth under the caption “Cash Flows” below.

We believe our financial position and liquidity are sufficient to fund our operating activities for at least the next twelve months. At September 30, 2012, our cash and cash equivalents totaled approximately $549.1 million. In September 2012, we issued $300.0 million of our 6.375% Senior Notes due 2022 and used $224.9 million of the net proceeds from the issuance of the notes to repay subsidiary debt of which $67.8 million was paid prior to September 30, 2012 and $157.1 million was paid in October 2012. After the use of the net proceeds, we have no debt due until April 2014.

Our Board of Directors previously authorized the repurchase of up to $300.0 million of our common stock, $150.0 million in August 2011 and $150.0 million in February 2012, exclusive of any fees, commissions or other expenses. During the three months ended September 30, 2012, we repurchased 8.4 million shares for $41.8 million, net of $0.2 million of commissions, under this program. Since the inception of the program, we have purchased a total of 45.0 million shares at an aggregate purchase price of $208.4 million, net of $0.9 million of commissions. At September 30, 2012, approximately $91.6 million was available to repurchase common stock pursuant to the stock repurchase program. Our stock repurchase program may be suspended or discontinued at any time.

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Results of Operations

The following table sets forth certain operating data as a percentage of net sales for the periods indicated:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Gross profit	16.8 %	16.5 %	15.3 %	18.1 %
Depreciation and amortization	13.5 %	11.2 %	13.4 %	11.9 %
Operating income	7.8 %	5.9 %	5.4 %	7.2 %
Income before income taxes	4.6 %	4.0 %	2.2 %	3.7 %
Net income attributable to Amkor	3.2 %	3.7 %	1.7 %	3.2 %

Net Sales

	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2012	2011	Change		2012	2011	Change	
	(In thousands, except percentages)							
Net sales	$695,353	$740,007	$(44,654)	(6.0)%	$2,036,890	$2,092,590	$(55,700)	(2.7)%
Packaging net sales	615,933	667,301	(51,368)	(7.7)%	1,808,111	1,877,470	(69,359)	(3.7)%
Test net sales	79,420	72,655	6,765	9.3 %	228,779	214,997	13,782	6.4 %

Net Sales. Net sales in the three and nine months ended September 30, 2012, decreased compared to the three and nine months ended September 30, 2011, as a result of lower net sales of our packaging services, partially offset by an increase in test net sales.

Packaging Net Sales. Packaging net sales in the three and nine months ended September 30, 2012, decreased compared to the three and nine months ended September 30, 2011. For the three months ended September 30, 2012, the decrease was primarily driven by weakness in demand for wirebond array packages, lower demand in gaming and the impact of lower demand by the less dominant OEMs that sell smartphones and tablets. For the nine months ended September 30, 2012, the decrease was attributable to lower net sales of our ball grid array packaging services supporting gaming, networking and home electronics as well as lower demand for leadframe packaging services. This decrease was partially offset by increased sales of our chip scale packaging services for wireless communications products, such as smartphones and tablets.

Packaging unit volume increased 0.1 billion units to 2.2 billion units during the three months ended September 30, 2012, compared to 2.1 billion units during the three months ended September 30, 2011, primarily due to an increase in wafer level and flip chip chip scale packaging services partially offset by a decrease in leadframe packaging services. Packaging unit volume decreased 0.2 billion units to 6.2 billion units during the nine months ended September 30, 2012, compared to 6.4 billion units during the nine months ended September 30, 2011, primarily due to a decrease in unit demand for our leadframe packaging services partially offset by increased demand for wafer level and flip chip chip scale packaging services.

Test Net Sales. Test net sales in the three and nine months ended September 30, 2012, increased compared to the three and nine months ended September 30, 2011. The increase was primarily attributable to higher test services for wireless communications products, such as smartphones and tablets.

Cost of Sales

	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2012	2011	Change		2012	2011	Change	
	(In thousands, except percentages)							
Cost of sales	$578,566	$617,768	$(39,202)	(6.3)%	$1,725,802	$1,713,848	$11,954	0.7%

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Our cost of sales consists principally of materials, labor, depreciation and manufacturing overhead. Since a substantial portion of the costs at our factories is fixed, relatively modest increases or decreases in capacity utilization rates can have a significant effect on our gross margin.

Material costs as a percentage of net sales decreased to 42.8% and 43.6% for the three and nine months ended September 30, 2012, from 45.5% and 43.8% for the three and nine months ended September 30, 2011. The decrease as a percentage of sales and in absolute dollars was primarily due to a shift to a mix of packaging services with a lower material content as a percentage of net sales and higher test net sales, which have lower material costs. In addition, the decline in absolute dollars was driven by lower net sales during the three and nine months ended September 30, 2012.

Labor costs as a percentage of net sales decreased to 14.8% and 14.4% for the three and nine months ended September 30, 2012, from 15.2% and 14.8% for the three and nine months ended September 30, 2011. Labor costs as a percentage of sales, and in absolute dollars, decreased primarily due to our continuing efforts to rationalize our labor cost structure. Additionally, labor costs for the three months ended September 30, 2011 included a charge for restructuring activities, and labor costs for the three months ended September 30, 2012 reflected the benefit from prior restructuring efforts. The decrease was also due to favorable foreign currency exchange rate movements as substantially all of our manufacturing operations' workforce is paid in local currencies. These cost savings were partially offset by a $5.5 million charge for the restructuring activities at our manufacturing operations in Japan for the nine months ended September 30, 2012.

Other manufacturing costs as a percentage of net sales increased to 25.6% and 26.7% for the three and nine months ended September 30, 2012, from 22.7% and 23.3% for the three and nine months ended September 30, 2011. The increase in other manufacturing costs as a percentage of sales, and in absolute dollars, was attributable to increased depreciation expense due to our continued investments in property, plant and equipment. For the nine months ended September 30, 2012, the increase was also due to the estimated $30.0 million loss contingency accrual resulting from an interim order issued by the arbitration panel relating to our license agreement with Tessera.

Gross Profit

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2012	2011	Change	2012	2011	Change
	(In thousands, except percentages)					
Gross profit	$116,787	$122,239	$(5,452)	$311,088	$378,742	$(67,654)
Gross margin	16.8%	16.5%	0.3%	15.3%	18.1%	(2.8)%

Gross profit for the three months ended September 30, 2012, decreased compared to the three months ended September 30, 2011, due to increased depreciation expense from our continued investments in property, plant and equipment and lower net sales. Gross margin for the three months ended September 30, 2012, increased compared to the three months ended September 30, 2011. Gross margin for the three months ended September 30, 2011, included a charge for restructuring activities, and gross margin for the three months ended September 30, 2012, reflected the benefit from prior restructuring efforts. The increase in gross margin was also due to favorable foreign currency exchange rate movements.

Gross profit and gross margin for the nine months ended September 30, 2012, decreased compared to the nine months ended September 30, 2011. The decrease in gross profit and gross margin was driven by the estimated $30.0 million loss contingency accrual resulting from an interim order issued by the arbitration panel relating to our license

agreement with Tessera. In addition, the decline in gross profit and gross margin was driven by lower packaging net sales and increased depreciation expense as a result of our continued investment in property, plant and equipment. For the nine months ended September 30, 2012, gross profit and gross margin were favorably impacted by the benefit from prior restructuring activities.

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	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2012	2011	Change	2012	2011	Change
	(In thousands, except percentages)					
Packaging gross profit	$96,550	$104,654	$(8,104)	$251,851	$325,339	$(73,488)
Packaging gross margin	15.7%	15.7%	—%	13.9%	17.3%	(3.4)%

Packaging Gross Profit. Gross profit for packaging net sales for the three months ended September 30, 2012, decreased compared to the three months ended September 30, 2011. The decline in gross profit was primarily due to increased depreciation expense from our continued investments in property, plant and equipment and lower packaging net sales. Gross margin for packaging net sales for the three months ended September 30, 2012, remained consistent with the three months ended September 30, 2011. For the nine months ended September 30, 2012, gross profit and gross margin decreased compared to the nine months ended September 30, 2011. This decrease was driven by the Tessera loss contingency accrual discussed above, which relates entirely to the packaging segment. The decline in gross profit and gross margin was also driven by lower packaging net sales and increased depreciation expense as a result of our continued investment in property, plant and equipment, partially offset by the benefit from prior restructuring activities.

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2012	2011	Change	2012	2011	Change
	(In thousands, except percentages)					
Test gross profit	$20,237	$17,909	$2,328	$59,237	$54,058	$5,179
Test gross margin	25.5%	24.6%	0.9%	25.9%	25.1%	0.8%

Test Gross Profit. Gross profit and gross margin for test net sales for the three and nine months ended September 30, 2012, increased compared to the three and nine months ended September 30, 2011. The increase in gross profit and margin was primarily a result of increased customer demand for test services and higher utilization of our test assets.

Selling, General and Administrative Expenses

	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2012	2011	Change		2012	2011	Change	
	(In thousands, except percentages)							
Selling, general and administrative	$49,297	$65,011	$(15,714)	(24.2)%	$160,041	$190,853	$(30,812)	(16.1)%

Selling, general and administrative expenses for the three and nine months ended September 30, 2012, decreased compared to the three and nine months ended September 30, 2011. The decrease was mainly attributable to reduced employee compensation expense and lower professional fees.

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Research and Development

	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2012	2011	Change		2012	2011	Change	
	(In thousands, except percentages)							
Research and development	$13,472	$13,233	$239	1.8 %	$40,764	$37,921	$2,843	7.5 %

Research and development activities are focused on developing new packaging interconnect and test services and improving the efficiency and capabilities of our existing production processes. Areas of focus include 3D packaging, including silicon interposers and Through Silicon Via technologies, fine pitch copper pillar packaging and wafer level processing. Research and development expenses for the three months ended September 30, 2012, remained consistent with the three months ended September 30, 2011. The increase in research and development expenses for the nine months ended September 30, 2012, compared to the nine months ended September 30, 2011, was primarily attributable to increased depreciation from research and development capital additions as a result of our continued investment in research and development initiatives and increased headcount.

Other Expense, Net

	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2012	2011	Change		2012	2011	Change	
	(In thousands, except percentages)							
Interest expense, net	$22,410	$20,438	$1,972	9.6 %	$68,715	$63,106	$5,609	8.9 %
Foreign currency loss (gain), net	2,394	(3,005)	5,399	(179.7)%	4,461	1,658	2,803	169.1 %
Loss on debt retirement, net	—	—	—	— %	—	15,531	(15,531)	(100.0)%
Equity in earnings of unconsolidated affiliate	(2,541)	(3,034)	493	(16.2)%	(5,421)	(6,641)	1,220	(18.4)%
Other income, net	(359)	(226)	(133)	58.8 %	(1,511)	(695)	(816)	117.4 %
Total other expense, net	$21,904	$14,173	$7,731	54.5 %	$66,244	$72,959	$(6,715)	(9.2)%

Other expense, net for the three months ended September 30, 2012, increased compared to the three months ended September 30, 2011. This increase was primarily the result of foreign currency losses from net monetary liabilities denominated in foreign currencies and unfavorable exchange rate movements. The increase was also attributable to additional interest expense from higher levels of long-term debt. Other expense, net for the nine months ended September 30, 2012, decreased compared to the nine months ended September 30, 2011. This decrease was the result of a $15.5 million loss on debt retirement incurred during the nine months ended September 30, 2011. Additionally, interest expense from higher levels of long-term debt and a decrease in our equity in earnings of J-Devices negatively impacted our results for the nine months ended September 30, 2012.

Income Tax Expense

For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
2012	2011	Change	2012	2011	Change
(In thousands, except percentages)					

Income tax expense	$9,538	$2,499	$7,039	281.7 %	$9,009	$9,475	$(466)	(4.9)%

Generally, our effective tax rate is substantially below the U.S. federal tax rate of 35% because we have experienced taxable losses in the U.S. and our income is taxed in foreign jurisdictions where we benefit from tax holidays or tax rates lower than the U.S. statutory rate. Income tax expense for the three and nine months ended September 30, 2012 and 2011, was attributable to income tax on profits earned in certain foreign jurisdictions, foreign withholding taxes and deferred taxes on undistributed earnings from our investment in J-Devices.

During the three months ended September 30, 2012, we recorded $3.1 million of income tax expense as a result of an addition to our unrecognized tax benefits.

During 2012, our subsidiaries in China, Korea, the Philippines and Taiwan have operated under tax holidays which will continue to expire in whole or in part at various dates through 2017. We expect our effective tax rate to increase as the tax holidays expire as income earned in these jurisdictions will be subject to higher statutory income tax rates.

At September 30, 2012, we had U.S. net operating loss carryforwards totaling $369.5 million, which expire at various times through 2031. Additionally, at September 30, 2012, we had $73.2 million of non-U.S. net operating loss carryforwards, substantially all of which will expire at various times through 2022. We maintain a valuation allowance on all of our U.S. net deferred tax assets, including our net operating loss carryforwards, and on deferred tax assets in certain foreign jurisdictions. We will release such valuation allowances as the related tax benefits are realized on our tax returns or when sufficient positive evidence exists to conclude that it is more likely than not that the deferred tax assets will be realized.

Liquidity and Capital Resources

We assess our liquidity based on our current expectations regarding sales, operating expenses, capital spending and debt service requirements. Based on this assessment, we believe that our cash flow from operating activities, together with existing cash and cash equivalents and availability under our revolving credit facilities, will be sufficient to fund our working capital, capital expenditure and debt service requirements for at least the next twelve months. Thereafter, our liquidity will continue to be affected by, among other things, volatility in the global economy and credit markets, the performance of our business, our capital expenditure levels, other uses of our cash including the final amount of payments due in our disputes with Tessera, any purchases of stock under our stock repurchase program, any investments in joint ventures or acquisitions and our ability to either repay debt out of operating cash flow or refinance at or prior to maturity with the proceeds of debt or equity offerings. There can be no assurance that we will generate the necessary net income or operating cash flows to meet the funding needs of our business beyond the next twelve months due to a variety of factors, including the cyclical nature of the semiconductor industry and other factors discussed in Part II, Item 1A of this Quarterly Report.

Our primary source of cash and the source of funds for our operations are cash flows from our operations, current cash and cash equivalents, borrowings under available debt facilities and proceeds from any additional debt or equity financings. As of September 30, 2012, we had cash and cash equivalents of $549.1 million and availability of $149.7 million under our $150.0 million first lien senior secured revolving credit facility. Additionally, our foreign subsidiaries had $85 million available to be drawn under revolving credit facilities and $75.0 million available to be borrowed under term loans. In October 2012, we used $157.1 million of our cash to repay subsidiary debt in connection with our September 2012 refinancing activity described below and also borrowed an additional $20.0 million under our term loan due 2017. We expect cash flows to be used in the operation and expansion of our business, making capital expenditures, paying principal and interest on our debt, making payments due in our disputes with Tessera, the repurchase of common stock and for other corporate purposes.

We operate in a capital intensive industry. Servicing our current and future customers may require that we incur significant operating expenses and make significant capital expenditures, which are generally made in advance of the related revenues and without any firm customer commitments.

We sponsor an accrued severance plan for our Korean subsidiary, which under existing tax laws in Korea, limits our ability to currently deduct related severance expenses accrued under that plan. The purpose of these limitations is to encourage companies to migrate to a defined contribution or defined benefit plan. If we retain our existing severance

plan, the deduction for severance expenses will be primarily limited to severance payments made to retired employees, which results in a larger current income tax liability in Korea. If we decide to adopt a new plan, we would be required to fund a significant portion of the existing liability, which would provide a current tax deduction upon funding. Our Korean severance liability was $119.8 million as of September 30, 2012.

Included in our cash balance as of September 30, 2012, is $366.9 million held offshore by our foreign subsidiaries. If we were to distribute this offshore cash to the U.S. as repatriated earnings of our foreign subsidiaries, we would incur foreign withholding taxes; however, we would not incur a significant amount of U.S. federal income taxes, due to the availability of tax loss carryovers and foreign tax credits.

Our Board of Directors previously authorized the repurchase of up to $300.0 million of our common stock, exclusive of any fees, commissions or other expenses. During the three months ended September 30, 2012, we repurchased 8.4 million shares for $41.8 million, net of $0.2 million of commissions. Since inception of the program, we have purchased a total of 45.0 million shares at an aggregate purchase price of $208.4 million, net of $0.9 million of commissions. At September 30, 2012, approximately $91.6 million was available to repurchase common stock pursuant to the stock repurchase program.

The purchase of stock may be made in the open market or through privately negotiated transactions. The timing, manner, price and amount of any repurchases will be determined by us at our discretion and will depend upon a variety of factors including economic and market conditions, the cash needs and investment opportunities for the business, price, applicable legal requirements and other factors. Our stock repurchase program may be suspended or discontinued at any time.

We have a 30% equity interest and options to acquire additional equity interests in J-Devices, a joint venture to provide semiconductor packaging and test services in Japan. The options are exercisable at our discretion and permit us to increase our percentage ownership of J-Devices on the anniversary date up to 60% in 2012 by purchasing primary shares from J-Devices, up to 66% in 2014 by purchasing shares owned by one of the other shareholders and up to 80% in 2015 by purchasing shares owned by the other shareholders. We expect that the exercise period for the initial 2012 option will expire sometime during the first quarter of 2013, depending on the receipt of certain financial statements from J-Devices. The exercise price for all options is payable in cash and is to be determined using a formula based primarily upon the net book value and a multiple of earnings before interest, taxes, depreciation and amortization of J-Devices.

We refer you to Note 16 to our Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report for a discussion of the pending arbitration relating to Amkor's license agreement with Tessera. The final award in the arbitration could be issued during the fourth quarter of 2012 and could be more than the amount currently accrued. We expect to use cash on hand and/or proceeds from borrowings under our existing lines of credit or other sources to make any payments due in connection with our litigation with Tessera.

We have debt of $1,627.1 million outstanding at September 30, 2012, of which $40.5 million is current. In addition to our $150.0 million first lien senior secured revolving credit facility, our foreign subsidiaries have $85 million available to be drawn under revolving credit facilities and $75.0 million available to be borrowed under term loans. In October 2012, we borrowed an additional $20.0 million under our term loan due 2017.

In September 2012, we issued $300.0 million of 6.375% Senior Notes due October 2022 (the “2022 Notes”) and used the net proceeds to repay $224.9 million of subsidiary debt, of which $67.8 million was paid prior to September 30, 2012 and $157.1 million was paid in October 2012. Our total debt and cash balances at September 30, 2012 both include the $157.1 million that was subsequently paid in October 2012.

Our indebtedness requires us to dedicate a substantial portion of our cash flow from operations to pay our debt and interest. We refer you to “Contractual Obligations” below for a summary of principal and interest payments.

In order to reduce leverage and future cash interest payments, we may from time to time repurchase our outstanding notes for cash or exchange shares of our common stock for our outstanding notes. Any such transaction may be made in the open market or through privately negotiated transactions and is subject to the terms of our indentures and other debt agreements, market conditions and other factors.

Certain debt agreements have restrictions on dividend payments and the repurchase of stock and subordinated securities, including our convertible notes. These restrictions are determined by calculations based upon cumulative net income. We have never paid a dividend to our stockholders, and we do not have any present plans for doing so. Amkor Technology, Inc. also guarantees certain debt of our subsidiaries.

We were in compliance with all debt covenants at September 30, 2012, and expect to remain in compliance with these covenants for at least the next twelve months.

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Capital Additions

Our capital additions for the nine months ended September 30, 2012, were $446.8 million. Our spending was focused primarily on new capacity for flip chip packaging and test services in support of the communications end market.

In May 2012, we signed a non-binding memorandum of understanding with the Incheon Free Economic Zone Authority of Incheon, Korea outlining our plans to build and invest in a state-of-the-art factory and global research and development center in the Incheon Free Economic Zone. We expect to spend approximately $350 million over the next three to four years to acquire and develop the land and buildings, with approximately $10 million planned for the fourth quarter of 2012. There can be no assurance that the new facility project will proceed at all, or that the actual scope, costs, timeline or benefits of the project will be consistent with our current expectations.

We currently expect our total 2012 capital additions will be approximately $500 million. Our expected capital additions for the remainder of 2012 primarily support customer demand for packaging and test services related to smartphones and tablets. In addition, approximately $100 million of spending planned for 2012 and 2013 relating to the Incheon, Korea facility is expected to be accrued this year. Ultimately, the amount of our 2012 capital additions will depend on several factors including, among others, the timing and implementation of any capital projects under review, the performance of our business, economic and market conditions, the cash needs and investment opportunities for the business, the need for additional capacity to service anticipated customer demand and the availability of cash flow from operations or financing. The following table reconciles our activity related to property, plant and equipment additions as presented on the Consolidated Balance Sheets to purchases of property, plant and equipment reflected on the Condensed Consolidated Statements of Cash Flows:

	For the Nine Months Ended September 30,	
	2012	2011
	(In thousands)	
Property, plant and equipment additions	$446,767	$325,350
Net change in related accounts payable and deposits	(66,423)	(1,001)
Purchases of property, plant and equipment	$380,344	$324,349

Contractual Obligations

The following table summarizes our contractual obligations at September 30, 2012, and the effect such obligations are expected to have on our liquidity and cash flow in future periods:

		Payments Due for Year Ending December 31,					
	Total	2012 - Remaining	2013	2014	2015	2016	Thereafter
	(In thousands)						
Total debt (1)	$1,627,140	$—	$55,356	$330,950	$116,667	$4,167	$1,120,000
Scheduled interest payment obligations (2)	650,128	37,088	99,713	89,075	76,055	74,394	273,803
Purchase obligations (3)	87,079	87,079	—	—	—	—	—
Operating lease obligations	27,577	2,548	8,299	7,466	5,363	936	2,965
Severance obligations (4)	119,820	2,034	8,028	7,475	6,975	6,494	88,814
Total contractual obligations	$2,511,744	$128,749	$171,396	$434,966	$205,060	$85,991	$1,485,582

(1) In September 2012, we issued $300.0 million of our 6.375% Senior Notes due 2022 ("the 2022 Notes") and $224.9 million of the net proceeds from the issuance of the 2022 Notes was used to repay subsidiary debt, of which $67.8 million was paid prior to September 30, 2012, and $157.1 million was paid in October 2012. The $157.1 million

payment in October 2012 prepaid the $55.4 million due in 2013, $80.9 million due in 2014, $16.6 million due in 2015, and $4.2 million due in 2016.

(2) Scheduled interest payment obligations were calculated using stated coupon rates for fixed rate debt and interest rates applicable at September 30, 2012, for variable rate debt.

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(3) Represents capital-related purchase obligations outstanding at September 30, 2012.
(4) Represents estimated benefit payments for our Korean subsidiary severance plan.

In addition to the obligations identified in the table above, other non-current liabilities recorded in our Consolidated Balance Sheet at September 30, 2012, include:

- $29.3 million of net foreign pension plan obligations for which the timing and actual amount of funding required is uncertain. We expect to contribute approximately $3.1 million to the defined benefit pension plans during the remainder of 2012.
- $2.7 million net liability associated with unrecognized tax benefits. Due to the uncertainty regarding the amount and the timing of any future cash outflows associated with our unrecognized tax benefits, we are unable to reasonably estimate the amount and period of ultimate settlement, if any, with the various taxing authorities.

Off-Balance Sheet Arrangements

As of September 30, 2012, we had no off-balance sheet guarantees or other off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of SEC Regulation S-K, other than our operating lease obligations described above in “Contractual Obligations.”

Contingencies, Indemnifications and Guarantees

We refer you to Note 16 to our Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report for a discussion of our contingencies related to litigation and other legal matters. If an unfavorable ruling were to occur in these matters, there exists the possibility of a material adverse impact on our business, liquidity, results of operations, financial position and cash flows in the period in which the ruling occurs. The potential impact from legal proceedings on our business, liquidity, results of operations, financial position and cash flows could change in the future.

Critical Accounting Policies

Our critical accounting policies are disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011. During the three months ended September 30, 2012, there have been no significant changes in our critical accounting policies as reported in our 2011 Annual Report on Form 10-K.

New Accounting Pronouncements

For information regarding recent accounting pronouncements, we refer you to Note 2 to our Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report.

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Cash Flows

Cash provided by operating activities was $284.4 million for the nine months ended September 30, 2012, compared to cash provided by operating activities of $375.8 million for the nine months ended September 30, 2011. We experienced negative free cash flow of $95.9 million for the nine months ended September 30, 2012, primarily due to our capital purchases to support anticipated customer demand for packaging and test services related to smartphones and tablets.

Net cash provided by (used in) operating, investing and financing activities for the nine months ended September 30, 2012 and 2011, were as follows:

	For the Nine Months Ended September 30,	
	2012	2011
	(In thousands)	
Operating activities	$284,436	$375,792
Investing activities	(361,450)	(306,929)
Financing activities	192,234	7,303

Operating activities: Our cash flow provided by operating activities for the nine months ended September 30, 2012, decreased by $91.4 million compared to the nine months ended September 30, 2011. Operating income for the nine months ended September 30, 2012, adjusted for depreciation and amortization, other operating activities and non-cash items, decreased by $18.6 million. The decrease is primarily attributable to decreased gross profit and the related decrease in operating income.

Changes in assets and liabilities decreased operating cash flow for the nine months ended September 30, 2012 compared to an increase in the nine months ended September 30, 2011, as a result of an increase in accounts receivable due to increased demand, offset by an increase in accounts payable and accrued expenses. Accounts payable increased primarily due to increased capital purchases. For the nine months ended September 30, 2011, accounts receivable decreased from December 31, 2010, reflecting decreased demand. The decrease in accounts receivable was offset by an increase in inventories compared to December 31, 2010.

Investing activities: Our cash flows used in investing activities for the nine months ended September 30, 2012, increased by $54.5 million. The increase in the nine months ended September 30, 2012, was primarily due to an increase in purchases of property, plant and equipment, partially offset by a decrease in proceeds from property, plant and equipment from the 2011 sale of our Singapore facility for $13.3 million.

Financing activities: Our cash flows provided by financing activities for the nine months ended September 30, 2012, increased by $184.9 million. The net cash provided by financing activities for the nine months ended September 30, 2012, primarily resulted from the issuance of $300.0 million of our 6.375% Senior Notes due 2022 (the “2022 Notes”) and foreign borrowings of $292.5 million offset by foreign debt repayments of $313.0 million, the repurchase of $80.9 million of common stock under our authorized stock repurchase program and payment of $6.0 million in debt issuance costs associated with the amendment and restatement of our first lien senior secured revolving credit facility and the issuance of the 2022 Notes.

Our net cash provided by financing activities for the nine months ended September 30, 2011, was $7.3 million which was primarily a result of the issuance of $400.0 million of our 6.625% Senior Notes due 2021 (the "2021 Notes") and Korean borrowings of $23.2 million offset by $373.7 million of repayments of our senior and convertible senior subordinated notes, term loans at our Korean subsidiary and other foreign amortizing debt. We also incurred $5.9

million in debt issuance costs associated with the issuance of the 2021 Notes and repurchased $41.5 million of common stock under our authorized stock repurchase program.

We provide the following supplemental data to assist our investors and analysts in understanding our liquidity and capital resources. We define free cash flow as net cash provided by operating activities less purchases of property, plant and equipment. Free cash flow is not defined by U.S. GAAP. We believe free cash flow to be relevant and useful information to our investors because it provides them with additional information in assessing our liquidity, capital resources and financial

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operating results. Our management uses free cash flow in evaluating our liquidity, our ability to service debt and our ability to fund capital additions. However, free cash flow has certain limitations, including that it does not represent the residual cash flow available for discretionary expenditures since other, non-discretionary expenditures, such as mandatory debt service, are not deducted from the measure. The amount of mandatory versus discretionary expenditures can vary significantly between periods. This measure should be considered in addition to, and not as a substitute for, or superior to, other measures of liquidity or financial performance prepared in accordance with U.S. GAAP, such as net cash provided by operating activities. Furthermore, our definition of free cash flow may not be comparable to similarly titled measures reported by other companies.

	For the Nine Months Ended September 30,	
	2012	2011
	(In thousands)	
Net cash provided by operating activities	$284,436	$375,792
Purchases of property, plant and equipment	(380,344)	(324,349)
Free cash flow	$(95,908)	$51,443

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Market Risk Sensitivity

We are exposed to market risks, primarily related to foreign currency and interest rate fluctuations. In the normal course of business, we employ established policies and procedures to manage the exposure to fluctuations in foreign currency values and changes in interest rates. Our use of derivative instruments, including forward exchange contracts, has been historically insignificant; however, we continue to evaluate the use of hedging instruments to manage currency and other risks. We did not enter into any derivative transactions in the nine months ended September 30, 2012, and have no outstanding contracts as of September 30, 2012.

Foreign Currency Risk

We currently do not have forward contracts or other instruments to reduce our exposure to foreign currency gains and losses, although we do use natural hedging techniques to reduce foreign currency rate risk.

The U.S. dollar is our reporting currency and the functional currency for the majority of our foreign subsidiaries including our largest subsidiaries in Korea and the Philippines and also our subsidiaries in China, Singapore and Taiwan. For our subsidiaries and affiliate in Japan, the local currency is the functional currency.

We have foreign currency exchange rate risk associated with the remeasurement of monetary assets and liabilities on our Consolidated Balance Sheets that are denominated in currencies other than the functional currency. We performed a sensitivity analysis of our foreign currency exposure as of September 30, 2012, to assess the potential impact of fluctuations in exchange rates for all foreign denominated assets and liabilities. Assuming a 10% adverse movement for all currencies against the U.S. dollar as of September 30, 2012, our income before income taxes would have been approximately $13.6 million lower.

In addition, we have foreign currency exchange rate exposure on our results of operations. For the nine months ended September 30, 2012, approximately 90% of our net sales were denominated in U.S. dollars. Our remaining net sales were principally denominated in Japanese yen and Korean won for local country sales. For the nine months ended September 30, 2012, approximately 59% of our cost of sales and operating expenses were denominated in U.S. dollars

and largely consisted of raw materials and factory supplies. The remaining portion of our cost of sales and operating expenses was principally denominated in the Asian currency where our production facilities are located and largely consisted of labor and utilities. To the extent that the U.S. dollar weakens against these Asian-based currencies, similar foreign currency denominated transactions in the future will result in higher sales and higher operating expenses, with operating expenses having the greater impact on our financial results. Similarly, our sales and operating expenses will decrease if the U.S. dollar strengthens against these foreign currencies. We performed a sensitivity analysis of our foreign currency exposure as of September 30, 2012, to assess the potential impact of fluctuations in exchange rates for all foreign denominated sales

and expenses. Assuming a 10% adverse movement from the nine months ended September 30, 2012, exchange rates of the U.S. dollar compared to all of these Asian-based currencies as of September 30, 2012, our operating income would have been approximately $58.5 million lower.

There are inherent limitations in the sensitivity analysis presented, primarily due to the assumption that foreign exchange rate movements across multiple jurisdictions are similar and would be linear and instantaneous. As a result, the analysis is unable to reflect the potential effects of more complex market or other changes that could arise which may positively or negatively affect our results of operations.

We have foreign currency exchange rate exposure on our stockholders' equity as a result of the translation of our subsidiaries and an affiliate where the local currency is the functional currency. To the extent the U.S. dollar strengthens against the local currency, the translation of these foreign currency denominated transactions will result in reduced sales, operating expenses, assets and liabilities. Similarly, our sales, operating expenses, assets and liabilities will increase if the U.S. dollar weakens against the local currencies. The effect of foreign exchange rate translation on our Consolidated Balance Sheets for the nine months ended September 30, 2012 and 2011, was a net foreign translation gain of $0.1 million and a gain of $4.3 million, respectively, and was recognized as an adjustment to equity through other comprehensive income.

Interest Rate Risk

We have interest rate risk with respect to our long-term debt. As of September 30, 2012, we had a total of $1,627.1 million of debt of which 79.6% was fixed rate debt and 20.4% was variable rate debt. The fixed rate debt consists of senior notes and senior subordinated notes. Our variable rate debt principally relates to our foreign borrowings and revolving lines of credit and any amounts outstanding under our $150.0 million senior secured revolving credit facility, of which no amounts were drawn as of September 30, 2012. As of December 31, 2011, we had a total of $1,346.7 million of debt of which 73.9% was fixed rate debt and 26.1% was variable rate debt. Changes in interest rates have different impacts on the fixed and variable rate portions of our debt portfolio. A change in interest rates on the fixed portion of the debt portfolio impacts the fair value of the debt instrument but has no impact on interest expense or cash flows. A change in interest rates on the variable portion of the debt portfolio impacts the interest incurred and cash flows but does not generally impact the fair value of the instrument. The fair value of the senior subordinated notes is also impacted by changes in the market price of our common stock.

The table below presents the interest rates, maturities and fair value of our fixed and variable rate debt as of September 30, 2012:

	2012 - Remaining	2013	2014	2015	2016	Thereafter	Total	Fair Value
Long term debt:								
Fixed rate debt (In thousands)	$—	$—	$250,000	$—	$—	$1,045,000	$1,295,000	$1,472,850
Average interest rate	— %	— %	6.0 %	— %	— %	6.8 %	6.6 %	
Variable rate debt (In thousands)	$—	$55,356	$80,950	$116,667	$4,167	$75,000	$332,140	$331,711
Average interest rate	— %	4.1 %	4.1 %	4.6 %	4.9 %	4.4 %	4.3 %	

For information regarding the fair value of our long-term debt, see Note 15 to our Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report.

Equity Price Risk

We have convertible notes that are convertible into our common stock. If investors were to decide to convert their notes to common stock, our future earnings would benefit from a reduction in interest expense and our common stock outstanding would be increased. If we paid a premium to induce such conversion, our earnings could include an additional charge.

Further, the trading price of our common stock has been and is likely to continue to be highly volatile and could be subject to wide fluctuations. Such fluctuations could impact our decision or ability to utilize the equity markets as a potential source of our funding needs in the future.

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Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our periodic reports to the SEC is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure, based on the definition of “disclosure controls and procedures” in Rule 13a-15(e) and Rule 15d-15(e) under the Securities Exchange Act of 1934, as amended. In designing and evaluating the disclosure controls and procedures, management recognizes that any disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures.

We carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2012 and concluded those disclosure controls and procedures were effective as of that date.

Changes in Internal Control Over Financial Reporting

As previously reported, we are implementing a new enterprise resource planning ("ERP") system in a multi-year program on a world-wide basis. During the three months ended September 30, 2012, we implemented several significant ERP modules at a subsidiary, including modules associated with financial reporting, inventory costing and invoicing. The implementation of the ERP modules represents a change in our internal control over financial reporting. We believe the ERP modules implemented have maintained or enhanced our internal control over financial reporting. We have taken steps to implement appropriate internal control over financial reporting during this period of change and will continue to evaluate the design and operating effectiveness of our internal controls during subsequent periods.

Other than internal controls affected by the implementation of the new ERP system modules discussed above, there have not been any other changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We will complete our evaluation and testing of the internal control changes as of December 31, 2012.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Information about legal proceedings is set forth in Note 16 to our Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report.

Item 1A. Risk Factors

The factors discussed below are cautionary statements that identify important factors and risks that could cause actual results to differ materially from those anticipated by the forward-looking statements contained in this report. For more information regarding the forward-looking statements contained in this report, see the introductory paragraph to Part I, Item 2 of this Quarterly Report. You should carefully consider the risks and uncertainties described below, together with all of the other information included in this report, in considering our business and prospects. The risks and uncertainties described below are not the only ones facing Amkor. Additional risks and uncertainties not presently known to us may also impair our business operations. The occurrence of any of the following risks could affect our business, liquidity, results of operations, financial condition or cash flows.

Dependence on the Highly Cyclical Semiconductor and Electronic Products Industries - We Operate in Volatile Industries and Industry Downturns and Declines in Global Economic and Financial Conditions Could Harm Our Performance.

Our business is impacted by market conditions in the semiconductor industry, which is cyclical by nature and impacted by broad economic factors, such as world-wide gross domestic product and consumer spending. The semiconductor industry has experienced significant and sometimes prolonged downturns in the past. For example, the recent financial crisis and global recession resulted in a downturn in the semiconductor industry that adversely affected our business and results of operations in late 2008 and in 2009. Although the world economy recovered somewhat in 2010, economic growth slowed in 2011 in the U.S. and internationally. In view of this slow growth and the recent economic uncertainty in Europe, consumer demand in the U.S. and globally may be adversely impacted which may harm the semiconductor industry and our business.

Since our business is, and will continue to be, dependent on the requirements of semiconductor companies for subcontracted packaging and test services, any downturn in the semiconductor industry or any other industry that uses a significant number of semiconductor devices, such as consumer electronic products, telecommunication devices or computing devices, could have a material adverse effect on our business and operating results. It is difficult to predict the timing, strength or duration of any economic slowdown or subsequent economic recovery, which, in turn, makes it more challenging for us to forecast our operating results, make business decisions and identify risks that may affect our business, sources and uses of cash, financial condition and results of operations. Additionally, if industry conditions deteriorate, we could suffer significant losses, as we have in the past, which could materially impact our business, liquidity, results of operations, financial condition and cash flows.

Fluctuations in Operating Results and Cash Flows - Our Operating Results and Cash Flows Have Varied and May Vary Significantly as a Result of Factors That We Cannot Control.

Many factors, including the impact of adverse economic conditions, could have a material adverse effect on our net sales, gross profit, operating results and cash flows, or lead to significant variability of quarterly or annual operating results. Our profitability and ability to generate cash from operations is principally dependent upon demand for semiconductors, the utilization of our capacity, semiconductor package mix, the average selling price of our services,

our ability to manage our capital expenditures in response to market conditions and our ability to control our costs including labor, material, overhead and financing costs. The downturn in demand for semiconductors in late 2008 and in 2009 resulted in significant declines in our operating results and cash flows as capacity utilization declined. Although the world economy recovered somewhat in 2010, the recent slow rate of economic growth in the U.S. and elsewhere and economic uncertainty in Europe, or the negative impact on economic growth resulting from the combination of federal income tax increases and government spending restrictions potentially occurring at the end of calendar year 2012 in the U.S. (commonly referred to as "fiscal cliff"), could adversely affect consumer demand in the U.S. and globally, which may negatively impact our operating results.

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Our net sales, gross profit, operating income and cash flows have historically fluctuated significantly from quarter to quarter as a result of many of the following factors, over which we have little or no control and which we expect to continue to impact our business:

- fluctuation in demand for semiconductors and conditions in the semiconductor industry;
- changes in our capacity utilization rates;
- changes in average selling prices;
- changes in the mix of semiconductor packages;
- evolving packaging and test technology;
- absence of backlog and the short-term nature of our customers' commitments and the impact of these factors on the timing and volume of orders relative to our production capacity;
- changes in costs, availability and delivery times of raw materials and components;
- changes in labor costs to perform our services;
- wage and commodity price inflation, including precious metals;
- the timing of expenditures in anticipation of future orders;
- changes in effective tax rates;
- the availability and cost of financing;
- intellectual property transactions and disputes;
- high leverage and restrictive covenants;
- warranty and product liability claims and the impact of quality excursions and customer disputes and returns;
- costs associated with litigation judgments, indemnification claims and settlements;
- international events, political instability, civil disturbances or environmental or natural events, such as earthquakes, that impact our operations;
- pandemic illnesses that may impact our labor force and our ability to travel;
- difficulties integrating acquisitions and the failure of our joint ventures to operate in accordance with business plans;
- our ability to attract and retain qualified employees to support our global operations;
- loss of key personnel or the shortage of available skilled workers;
- fluctuations in foreign exchange rates and the cost of materials used in our packaging services such as gold and copper;
- delay, rescheduling and cancellation of large orders;
- fluctuations in our manufacturing yields and
- dependence on key customers or concentration of customers in certain market segments, such as wireless communications.

It is often difficult to predict the impact of these factors upon our results for a particular period. The downturn in the global economy and the semiconductor industry increased the risks associated with the foregoing factors as customer forecasts became more volatile, and there was less visibility regarding future demand and significantly increased uncertainty regarding

the economy, credit markets and consumer demand. Although the world economy recovered somewhat in 2010, the recent slow rate of economic growth in the U.S. and elsewhere and economic uncertainty in Europe could continue to cause volatility in customer forecasts and reduce our visibility regarding future demand in the semiconductor industry. These factors may have a material and adverse effect on our business, liquidity, results of operations, financial condition and cash flows or lead to significant variability of quarterly or annual operating results. In addition, these factors may adversely affect our credit ratings which could make it more difficult and expensive for us to raise capital and could adversely affect the price of our securities.

High Fixed Costs - Due to Our High Percentage of Fixed Costs, We Will Be Unable to Maintain Our Gross Margin at Past Levels if We Are Unable to Achieve Relatively High Capacity Utilization Rates.

Our operations are characterized by relatively high fixed costs. Our profitability depends in part not only on pricing levels for our packaging and test services, but also on the utilization of our human resources and packaging and test equipment. In particular, increases or decreases in our capacity utilization can significantly affect gross margins since the unit cost of packaging and test services generally decreases as fixed costs are allocated over a larger number of units. In periods of low demand, we experience relatively low capacity utilization in our operations, which leads to reduced margins during that period. For example, we experienced lower than optimum utilization in late 2008 and in 2009 due to a decline in world-wide demand for our packaging and test services which impacted our gross margin. Transitions between different packaging technologies, such as the transition from gold wirebond to flip chip and copper wirebond packages, can also impact our capacity utilization if we do not efficiently redeploy our equipment assets. For example, in 2011 the migration of some customer demand from wirebond to flip chip packages resulted in under-utilized wirebond assets which negatively impacted our capacity utilization and gross margin. Although our capacity utilization at times has been strong, we cannot assure you that we will be able to achieve consistently high capacity utilization, and if we fail to do so, our gross margins may decrease. If our gross margins decrease, our business, liquidity, results of operations, financial condition and cash flows could be materially adversely affected.

In addition, our fixed operating costs have increased in recent years in part as a result of our efforts to expand our capacity through significant capital additions. Forecasted customer demand for which we have made capital investments may not materialize, especially if industry conditions deteriorate. As a result, our sales may not adequately cover our substantial fixed costs resulting in reduced profit levels or causing significant losses, both of which may adversely impact our business, liquidity, results of operations, financial condition and cash flows.

Guidance - Our Failure to Meet Our Guidance or Analyst Projections Could Adversely Impact the Trading Prices of Our Securities.

We periodically provide guidance to investors with respect to certain financial information for future periods. Securities analysts also periodically publish their own projections with respect to our future operating results. As discussed above under “Fluctuations in Operating Results and Cash Flows - Our Operating Results and Cash Flows Have Varied and May Vary Significantly as a Result of Factors That We Cannot Control,” our operating results and cash flows vary significantly and are difficult to accurately predict. Volatility in customer forecasts and reduced visibility caused by economic uncertainty and fluctuations in global consumer demand make it particularly difficult to predict future results. To the extent we fail to meet or exceed our own guidance or the analyst projections for any reason, the trading prices of our securities may be adversely impacted. Moreover, even if we do meet or exceed that guidance or those projections, if analysts and investors do not react favorably, or if analysts were to discontinue providing coverage of our company, the trading prices of our securities may be adversely impacted.

Declining Average Selling Prices - The Semiconductor Industry Places Downward Pressure on the Prices of Our Packaging and Test Services.

Prices for packaging and test services have generally declined over time. Historically, we have been able to partially offset the effect of price declines by successfully developing and marketing new packages with higher margins, by negotiating lower prices with our material vendors, recovering material cost increases from our customers and by driving engineering and technological changes in our packaging and test processes, which resulted in reduced manufacturing costs. We expect downward pressure on average selling prices for our packaging and test services to continue in the future. If we are unable to offset a decline in average selling prices, by developing and marketing new packages with higher prices, reducing our

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purchasing costs, reco