

Warner Richard C
Form 4
February 20, 2019

FORM 4 UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL

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STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
Warner Richard C

2. Issuer Name and Ticker or Trading Symbol
Walker & Dunlop, Inc. [WD]

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

(Last) (First) (Middle)
C/O WALKER & DUNLOP,
INC., 7501 WISCONSIN AVENUE,
SUITE 1200E

3. Date of Earliest Transaction
(Month/Day/Year)
02/15/2019

___ Director ___ 10% Owner
 Officer (give title below) ___ Other (specify below)
EVP & Chief Credit Officer

(Street)
BETHESDA, MD 20814

4. If Amendment, Date Original Filed(Month/Day/Year)

6. Individual or Joint/Group Filing(Check Applicable Line)
 Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

(City) (State) (Zip)

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
				(A) or (D)	Price		
Common Stock	02/15/2019		A	36,650 (1)	\$ 0	92,045	D
Common Stock	02/15/2019		A	9,175 (2)	\$ 0	101,220	D
Common Stock	02/15/2019		F	23,020	\$ 54.49	78,200	D
Common Stock						5,886	I By Spouse

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474
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Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Price of Derivative Security (Instr. 5)	9. Number of Derivative Securities Beneficially Owned (Instr. 5)
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Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Warner Richard C C/O WALKER & DUNLOP, INC. 7501 WISCONSIN AVENUE, SUITE 1200E BETHESDA, MD 20814			EVP & Chief Credit Officer	

Signatures

/s/ Daniel J. Groman,
Attorney-in-fact
**Signature of Reporting Person

02/20/2019
Date

Explanation of Responses:

- * If the form is filed by more than one reporting person, see Instruction 4(b)(v).
 - ** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
- On March 21, 2016, the reporting person was granted an award of performance share units, which vest in the form of common stock if certain pre-established performance goals underlying the award are met over the course of a three-year period. On February 15, 2019, the Compensation Committee of the Issuer's Board of Directors determined that the performance goals had been met, resulting in the vesting of these shares.
- (1) Compensation Committee of the Issuer's Board of Directors determined that the performance goals had been met, resulting in the vesting of these shares.
- (2) The restricted stock vests in three equal annual installments beginning on February 15, 2020.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, see Instruction 6 for procedure. Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number.

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Tax on pretax income (loss) at applicable statutory rates

(1,117,426) (1,322,415) 538,998 18,497

Tax effect:

Losses carried forward

227,739 1,088,819 (61,646) (2,115)

Tax exempt income

134,173

Permanent differences

460,272 (105,083) (183,426) (6,295)

Temporary differences

647,470 346,995 (256,756) (8,811)

Income tax expense - current before tax credits

352,228 8,316 37,170 1,276

The ROC statutory tax rate for 2008, 2009 and 2010 were 25%, 25% and 17%, respectively.

The PRC statutory rate for 2008 onwards was 25%.

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18. INCOME TAX EXPENSE (BENEFIT) (continued)

b. Income tax expense consists of:

	Year Ended December 31,			US\$
	2008 NT\$	2009 NT\$	2010 NT\$	
	(in thousands)			
Income tax expense - current before tax credits	352,228	8,316	37,170	1,276
Additional 10% on the unappropriated earnings	166,318			
Income tax credits	(165,909)		(9,445)	(324)
Separate and foreign income tax				
Income tax for the current year	352,637	8,316	27,725	952
Net change in deferred income tax assets (liabilities) for the year				
Tax credits	(22,867)	4,080	515,421	17,688
Temporary differences	(647,470)	(310,264)	289,610	9,938
Losses (recognized) utilized	(227,739)	(1,088,819)	82,057	2,816
Valuation allowances	867,948	804,420	(1,124,766)	(38,599)
Deferred tax effect of change in tax rate		139,526	80,935	2,777
Adjustment of prior years taxes	(201,717)	22,079	29,658	1,018
Income tax expense (benefit)	120,792	(420,662)	(99,360)	(3,410)

Since the Company is an exempted company incorporated in Bermuda, a tax-free country, tax on pretax income is calculated at the Bermuda statutory rate of 0% for each year.

ChipMOS Taiwan, under Science Park Regulations, is entitled to an exemption from ROC income taxes for a period of four years on income attributable to the expansion of its production capacity as a result of purchases of new equipment funded by capital increases. Such tax exemption expired on December 31, 2008.

In accordance with the relevant tax rules and regulations in the PRC, ChipMOS Shanghai enjoys income tax exemptions for the first two profitable years and 50% reductions for the following three years. Tax losses can only be carried forward for five years. ChipMOS Shanghai is subject to PRC income tax at 25% since January 1, 2009.

c. Deferred income tax assets and liabilities are summarized as follows:

	December 31,		US\$
	2009 NT\$	2010 NT\$	
	(in thousands)		
Net current deferred income tax assets:			
Unrealized foreign exchange losses	3,200	25,248	866
Tax credits	552,781	285,891	9,811
Loss of market price decline and obsolete and slow-moving inventories	36,969	10,430	358
Unrealized loss on sale allowances	22,791	31,932	1,096
Allowance for doubtful receivables	554,152	11,013	378
Others	7,406	4,768	163

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	1,177,299	369,282	12,672
Less: Valuation allowances	(820,989)	(90,571)	(3,107)
	356,310	278,711	9,565
Net non-current deferred income tax (liabilities) assets:			
Losses carried forward	1,445,742	1,178,333	40,437
Tax credits	412,308	163,777	5,620
Depreciation differences	(368,862)	(93,342)	(3,203)
Unrealized impairment loss on idle fixed assets	8,387	13,114	450
Others	294,474	236,306	8,109
	1,792,049	1,498,188	51,413
Less: Valuation allowances	(1,578,683)	(1,080,257)	(37,071)
	213,366	417,931	14,342

The deferred income tax components are measured at respective applicable statutory rates as of December 31, 2009 and 2010 of 20% and 17%, respectively for ChipMOS Taiwan and ThaiLin and 25% for ChipMOS Shanghai.

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18. INCOME TAX EXPENSE (BENEFIT) (continued)

- d. The balance and year of expiry of unused investment tax credits and losses carried forward as of December 31, 2010 are as follows:

Year of expiry	R & D expenditures NT\$	Machinery and equipment NT\$ (in thousands)	Losses carried forward NT\$
2011	65,571	220,320	85,378
2012	52,448	38,599	112,994
2013	31,470	17,609	129,843
2014		23,651	94,180
2015			46,856
2018			42,603
After 2018			666,479
	149,489	300,179	1,178,333

The deferred tax assets relate to investment tax credits on research and development expenditure and purchases of machinery and equipment which will expire from 2011 to 2014. Under ROC tax regulations, tax credits can be utilized to reduce current income tax obligations only to the extent of 50% of such income tax obligations except in the year when such tax credits will expire, in which case, the entire amount of expiring tax credits may be utilized to reduce the current income tax obligation. The foregoing limitation on the utilization of tax credits, the expiry dates of the tax credits, the level of tax credits expected to be generated from future operations and the level of non-taxable income attributable to the four-year income tax holiday on capacity expansion led management to conclude that it is unlikely that these investment tax credits will be fully realized. Losses carried forward can be used to deduct current income tax obligations up to the extent of taxable income and will expire after ten years if not fully utilized by the Company. Accordingly, a valuation allowance on deferred tax assets is recognized as of December 31, 2009 and 2010.

The tax losses of ChipMOS Shanghai will expire after five years.

- e. According to ROC tax law, ChipMOS Taiwan's and ThaiLin's unappropriated earnings generated in 1998 and thereafter are subject to a tax of 10% in the year when the shareholders resolve that such earnings shall be retained. The retained earnings as of December 31, 2009 and 2010 consist of:

	2009 NT\$	December 31, 2010 NT\$ (in thousands)	US\$
Before 1998			
1998 and thereafter	(2,815,527)	2,593,408	88,998
	(2,815,527)	2,593,408	88,998

The income tax returns of ChipMOS Taiwan and ThaiLin through 2007 and 2008, respectively, have been assessed by the tax authorities.

19. RELATED PARTY TRANSACTIONS

The Company engages in business transactions with the following related parties:

- a. MVI: A major shareholder.
- b. DenMOS Technology Inc. (DenMOS): An investee of MVI.
- c. ProMOS: An investee of MVI.
- d. SPIL: A major shareholder.

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19. RELATED PARTY TRANSACTIONS (continued)

The significant transactions with the aforementioned parties, other than those disclosed in other notes, are summarized as follows:

	2008 NT\$	Year Ended December 31,		US\$
		2009 NT\$ (in thousands)	2010 NT\$	
During the year				
Revenue				
ProMOS	3,114,149	667,800	2,033,342	69,778
DenMOS	8,776	911		
SPIL		195		
	3,122,925	668,906	2,033,342	69,778
Purchases of materials				
ProMOS	164,609			
Other expenses				
MVI	148	148	148	5
DenMOS		1		
SPIL			766	26
	148	149	914	31
Other revenue				
ProMOS		26,800	412	14
Interest income				
ProMOS	252	1,183		
At the end of year				
Accounts receivable				
ProMOS			259,415	8,902
SPIL		205		
Less: Allowances for doubtful receivables			(1,433)	(49)
		205	257,982	8,853
Other receivables				
ProMOS		463,536	66,378	2,278
Less: Allowances for doubtful receivables		(463,536)		
			66,378	2,278

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Advance receipts			
ProMOS	1,947		
Other payables			
MVI	26	13	1
Payables to contractors and equipment suppliers			
SPIL		490,000	16,815

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19. RELATED PARTY TRANSACTIONS (continued)

18%, 5% and 12% of the Company's 2008, 2009 and 2010 sales were made to ProMOS. The price was agreed upon quarterly, based on the then fair market price. The collection term for ProMOS was originally 75 days after month end. On November 13, 2008, ChipMOS Taiwan and ProMOS revised the subcontracting contract by requiring ProMOS to provide wafers with a value of 80% of the subcontracting fee as collateral. Effective March 2009, ChipMOS Taiwan started to request prepayments from ProMOS. In May 2010, the collection term was revised to 30 days after delivery and it was further revised to 45 days after delivery in October 2010. In September 2008, ThaiLin revised the collection term for ProMOS from 75 days to 105 days after month end. In April 2009, ThaiLin started to request prepayments from ProMOS. In June 2010, the collection term was revised to 30 days after delivery.

Other related parties have normal collection terms of 60 days after month end. The selling price is the same as for other customers.

The payment terms for purchases from related parties are the same as those from other suppliers.

In 2008, ProMOS used its machinery of NT\$407,460 thousand, and bonds of NT\$250,000 thousand and NT\$400,000 thousand, to settle the payable to ChipMOS Taiwan.

In 2009, ProMOS used 1,015 thousand shares of ChipMOS Bermuda to settle the other receivables of NT\$30,000 thousand and accounts receivable of NT\$24,851 thousand.

On December 29, 2009, a director of the Company purchased NT\$29,140 thousand (US\$1,000 thousand) 8%CN due 2014 (Note 13).

As of December 31, 2009, other receivables from ProMOS amounted to NT\$408,999 thousand and 100% allowance was made by ChipMOS Taiwan. NT\$7,000 thousand was received by April 2010. Under the amended subcontracting contract ProMOS paid ChipMOS Taiwan NT\$200,000 thousand in May 2010. The remaining NT\$201,999 thousand will be paid in nine monthly installments ending on March 15, 2011. Nine post-dated checks were received. As of December 31, 2010, ChipMOS Taiwan received NT\$335,999 thousand and the related allowance of NT\$408,999 thousand was reversed to other non operating income.

As of December 31, 2009, other receivables from ProMOS amounted to NT\$54,537 thousand (US\$1,872 thousand) and 100% allowance was made by ThaiLin. In June 2010, ThaiLin agreed a settlement with ProMOS in the amount of NT\$24,000 thousand and it was collected during the year. The allowance of NT\$24,000 thousand was reversed to other non-operating income.

In February 2010, ChipMOS Taiwan has entered into an Equipment Purchase Agreement with SPIL to purchase SPIL's DRAM test and LCD driver assembly and test operation lines with purchase price of approximately NT\$1,630,580 thousand (US\$55,957 thousand). Under the terms and conditions of the Equipment Purchase Agreement, ChipMOS Taiwan will pay the purchase price in four installments to SPIL with the final installment scheduled to be paid on or before March 31, 2011. As of December 31, 2010, the unpaid was NT\$ 490,000 thousand and it was paid in January 2011.

At the same time, ChipMOS Bermuda has also entered into a Share Purchase Agreement with SPIL to sell to SPIL its holding of 133,000 thousand common shares of ChipMOS Taiwan with a consideration of NT\$1,630,580 thousand (US\$55,957 thousand). Under the terms and conditions of the Share Purchase Agreement, SPIL will pay the purchase price in four installments to the Company with the final installment scheduled to be paid on or about March 31, 2011. As of December 31, 2010, SPIL has acquired 93,033 thousand common shares of ChipMOS Taiwan. The transaction was completed in January 2011.

The Company consults its ROC counsel on certain related party transactions and obtains legal opinions, as appropriate, to ensure that such transactions do not violate relevant ROC laws and regulations.

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20. PLEDGED OR MORTGAGED ASSETS

The Company provided certain assets as collateral mainly for short and long-term bank loans, capital leases and customs duty guarantee, which were as follows:

	2009	December 31,	
	NT\$	2010	US\$
		NT\$	
		(in thousands)	
Restricted cash and cash equivalent	243,849	546,807	18,765
Investments with no active market	201,000		
Land	452,738	452,738	15,537
Buildings	5,447,920	6,270,155	215,173
Machinery and Equipment	10,086,997	6,345,521	217,760
Leased equipment	2,311,002	1,636,115	56,147
Land use right		94,265	3,235
	18,743,506	15,345,601	526,617

21. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

- a. As of December 31, 2010, ChipMOS Taiwan leased parcels of land from the Hsinchu and Tainan Science Park under several agreements expiring on various dates from 2017 to 2026, with renewal options.

The future minimum lease payments under the above-mentioned leases as of December 31, 2010 are as follows:

Year	Amount	
	NT\$	US\$
	(in thousands)	
2011	24,126	828
2012	23,142	794
2013	23,142	794
2014	23,142	794
Thereafter	122,723	4,212
Total minimum lease payments	216,275	7,422

- b. As of December 31, 2010, ChipMOS USA leased its office under an agreement expiring in 2015. The future minimum lease payments as of December 31, 2010 are as follow:

Year	Amount	
	NT\$	US\$
	(in thousands)	
2011	2,939	101
2012	3,030	104
2013	2,944	101
2014	2,854	98

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2015	2,940	101
Total minimum lease payments	14,707	505

- c. As of December 31, 2010, ChipMOS Taiwan had capital commitments in relation to purchase of plant and machinery in the amount of NT\$816,900 thousand (US\$28,034 thousand).
- d. As of December 31, 2010, ThaiLin had capital commitments in relation to purchase of plant and machinery in the amount of NT\$10,419 thousand (US\$358 thousand).
- e. As of December 31, 2010, ChipMOS Shanghai had capital commitments in relation to purchase of plant and machinery in the amount of NT\$50,427 thousand (US\$1,731 thousand).

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21. SIGNIFICANT COMMITMENTS AND CONTINGENCIES (continued)

- f. On April 1, 1999, Motorola, Inc. (Motorola) and ChipMOS Taiwan entered into an immunity agreement (the Agreement), that each party covenanted not to sue each other for the use of certain Ball Grid Array (BGA) patents pursuant to the Agreement. In December 2004, Motorola spun off its semiconductor division and thereby formed Freescale Semiconductor, Inc. (Freescale). Subsequently, Freescale assumed Motorola s rights and obligations under the Agreement. On October 16, 2006, Freescale unilaterally terminated the Agreement, alleging ChipMOS Taiwan breach of the Agreement. Under the Agreement, ChipMOS Taiwan agreed to pay running royalties for its manufacturing of certain BGA packages covered by Motorola (now Freescale) patents pursuant to the Agreement. As such, ChipMOS Taiwan argued Freescale s unilateral termination of the Agreement has no legal effect. ChipMOS Taiwan has continued to accrue royalty payments for products it believes are covered by the Agreement. The payments previously returned by Freescale and accrued by ChipMOS Taiwan have been deposited in a separate escrow account. On July 13, 2009, Freescale alleged that ChipMOS Taiwan breached the Agreement by failing to pay royalties on certain BGA packages assembled by ChipMOS Taiwan. Freescale claims that such packages are covered by one or more Freescale patents identified in the Agreement while ChipMOS Taiwan contends that such packages are not covered by any of Freescale s patents in the Agreement. ChipMOS Taiwan filed an answer to deny all allegations and also filed counterclaims against Freescale alleging Freescale for engaging in patent misuse by seeking to obtain royalties on certain of ChipMOS Taiwan s BGA products that were not covered by any Freescale patent included under the Agreement, and for declaratory judgment of patent non-infringement and invalidity. In response, on December 11, 2009, Freescale filed a motion to dismiss the declaratory judgment counterclaims filed by ChipMOS Taiwan and to stay all other patent related claims and issues until its breach of contract claims could be decided. That motion and the initial case management conference were held on March 5, 2010 and the motions were deemed submitted. A Summary Judgment granting in part and denying in part of motion of both Freescale and ChipMOS Taiwan was given by court on July 29, 2010. A trial date is scheduled for September 19, 2011. The Company s counsel has not formed any opinion as to the outcome of the case.
- g. On April 20, 1999, ChipMOS Taiwan entered into a semiconductor packaging technology license agreement with Tessera Technologies, Inc. (Tessera). In February 2006, ChipMOS Taiwan and ChipMOS USA received notice of a patent infringement lawsuit brought by Tessera, alleging infringement of several Tessera patents and breach of an existing license agreement with ChipMOS Taiwan. The fact discovery has been stayed in accordance with a Northern District of California Court order issued on May 24, 2007. On April 21, 2008, Tessera requested that the International Trade Commission (ITC) investigate ChipMOS Bermuda, ChipMOS Taiwan and ChipMOS USA (collectively referred to as the Companies) on the basis of alleged violations of Section 337 of the Tariff Act of 1930. In its request for investigation (ITC-649 Investigation), Tessera alleged that the Companies infringed certain patents among which are three that were the subject of the stayed litigation in the Northern District of California. Tessera also requested that the ITC issue an exclusion order to enjoin the importation of accused products into the United States. On September 30, 2008, Judge of Northern District of California Court (Judge) granted a motion to extend the hearing date from March 16 to March 24, 2009 and target date from August 28 to November 2, 2009. On February 10, 2009, the Judge ordered the procedural schedule in the ITC-649 Investigation be stayed until the ITC issues its Final Determination in the ITC-605 Investigation. The target date of Initial Determination was also extended from December 7, 2009 to February 8, 2010. On March 13, 2009, after the close of discovery, Tessera submitted a request to terminate the ITC-649 Investigation. On July 17, 2009, the Judge issued an order granting the request to terminate the ITC-649 Investigation. No petitions for review were filed. The ITC had determined not to review the Initial Determination and issued an order to terminate the investigation on August 7, 2009. The ITC s Final Determination for the ITC-605 Investigation issued in May 2009 was appealed to the Federal Circuit. On December 21, 2010, the Federal Circuit issued an opinion and affirmed ITC s Final Determination. This appeal is not yet final as it was petitioned to the Federal Circuit for a rehearing. The stayed litigations may resume once the ITC completes a companion investigation against other companies in the ITC-605 Investigation. The Company s counsel has not formed an opinion as to the outcome of the case.

22. POST BALANCE SHEET EVENTS

- a. On January 21, 2011, the Company s shareholders approved a one-for-four reverse stock split of its common stock which became effective on January 21, 2011. As a result of this reverse stock split, every four shares of the Company s common stock that were issued and outstanding as of January 21, 2011 were automatically combined into one issued and outstanding share with par value change from US\$0.01 to US\$0.04 per share, and the number of authorized but unissued shares of the Company s common stock was proportionally reduced. A proportionate adjustment was also made to the Company s outstanding stock options and convertible notes. No fractional shares were issued in connection with this reverse stock split, but rather shareholders who were entitled to fractional shares received cash in lieu of receiving fractional shares.

- b. On January 10, 2011, SPIL paid NT\$490,000 thousand (US\$16,815 thousand) to ChipMOS Bermuda to purchase the remaining 39,967 thousand common shares of ChipMOS Taiwan. Upon completion of the transaction, SPIL owned a 15.8% interest in ChipMOS Taiwan.

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23. DERIVATIVE FINANCIAL INSTRUMENTS

ChipMOS Taiwan has entered into forward exchange contracts and foreign currency options for the years ended December 31, 2008, 2009 and 2010 to hedge its exchange rate risk on foreign-currency assets or liabilities and anticipated transactions. No derivative financial instrument was used during 2009 and 2010. Information on the derivative transactions is as follows:

a. Forward exchange contracts

As of December 31, 2009 and 2010, there were no outstanding forward contracts.

b. Financial risk information

- 1) Credit risk. Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily for trade and other receivables). The Company performs ongoing credit evaluation of the debtors' financial condition and maintains an allowance for doubtful receivables based on historical collection, write-off experience and individual examination of available information regarding the customers. The banks with which the Company has entered into the above contracts are reputable and, therefore, the Company is not expected to be exposed to significant credit risks.
- 2) Market risk and hedge strategy. The Company's financial assets at fair value through profit and loss are stated at market value, which is affected by the stock prices in the open stock market. The financial assets with no active market and held-to-maturity financial assets held by the Company are mainly fixed-interest-rate debt securities; therefore, the fluctuations in market interest rates will result in changes in fair values of these debt securities. Subject to turmoil in the global financial market, the Company had evaluated its financial instruments and the Company believed the exposure to market risk as of December 31, 2010 was not significant. The Company is exposed to market risks arising from changes in currency exchange rates due to U.S. dollar denominated accounts receivable, Yen denominated accounts payable and U.S. dollar denominated debt. In order to manage these exposures, the Company sometimes enters into forward contracts and option contracts.
- 3) Liquidity risk. Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. Prudent liquidity risk management implies maintaining sufficient cash. The Company monitors and maintains a level of bank balances deemed adequate to finance its operations. The Company employs projected cash flow analysis to manage liquidity risk by forecasting the amount of cash required and monitoring the working capital of the group to ensure that all liabilities due and known funding requirements could be met. In addition, there are unused credit lines for contingency purposes.
- 4) Cash flow interest rate risk. Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's short and long term bank loans with floating interest rates. At December 31, 2010, it is estimated that a general increase or decrease of 1% in interest rates, with all other variables held constant, would increase the Company's cash outflow by NT\$135,143 thousand.

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23. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

c. The estimated fair values of the Company's financial instruments are as follows:

	2009		December 31,		2010
	Carrying		Carrying		
	Value	Fair Value	Value	Fair Value	US\$
	NT\$	NT\$	NT\$	NT\$	
	(in thousands)				
Assets					
Cash and cash equivalents	3,884,828	3,884,828	7,143,265	7,143,265	245,136
Restricted cash and cash equivalents	243,849	243,849	546,807	546,807	18,765
Financial assets at fair value through profit and loss	119,027	119,027	2,999	2,999	103
Notes receivable	27,931	27,931	13,980	13,980	480
Accounts receivable:					
Related parties	205	205	257,982	257,982	8,853
Third parties	2,441,765	2,441,765	2,816,072	2,816,072	96,639
Other receivables:					
Related parties			66,378	66,378	2,278
Third parties	130,131	130,131	182,028	182,028	6,247
Long-term investments	19,966	19,966	10,537	10,537	362
Investments with no active market	300,000	300,000			
Refundable deposits	33,797	33,797	20,295	20,295	697
Liabilities					
Bank loans	2,363,319	2,363,319	1,494,651	1,494,651	51,292
Accounts payable:					
Third parties	737,997	737,997	690,060	690,060	23,681
Other payables:					
Related parties	26	26	13	13	1
Third parties	696,122	696,122	896,706	896,706	30,772
Payables to contractors and equipment suppliers	201,171	201,171	790,598	790,598	27,131
Capital leases payable (including current portion)	2,275,005	2,275,005	1,453,791	1,453,791	49,890
Convertible notes (including current portion)	554,537	596,227	174,138	194,672	6,681
Derivative liabilities	129,967	129,967	96,788	96,788	3,321
Long-term loans (including current portion)	12,793,259	12,793,259	10,565,871	10,565,871	362,590
Guarantee deposits	3,668	3,668	3,989	3,989	137

Fair values of financial instruments were determined as follows:

- 1) Short-term financial instruments – the carrying values approximate the fair values due to its short-term nature.
- 2) Financial assets at fair value through profit and loss – open market values.
- 3) Long-term investments – market value for listed companies and net equity value for the others.

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- 4) Investments with no active market amortized cost.

- 5) Refundable deposits and guarantee deposits future values.

- 6) Long-term liabilities based on forecasted cash flows discounted at current interest rates of similar long-term liabilities. The fair value of convertible notes in 2009 and 2010 is determined by option pricing models. Other long-term liabilities are their carrying values as they use floating interest rates.

The fair value of non-financial instruments was not included in the fair values disclosed above. Accordingly, the sum of the fair values of the financial instruments listed above does not equal the fair value of the Company.

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23. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

- d. The following table details the Company's exposure to foreign currency risk arising from recognized assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate:

	Foreign Currency	2009 Exchange Rate	Year Ended December 31,		2010 Exchange Rate	NT\$
			NT\$	Foreign Currency		
(in thousands)						
Financial Assets						
U.S. Dollar	160,978	31.99	5,149,649	147,837	29.13	4,292,417
Japanese Yen	677,171	0.3465	234,692	1,990,578	0.3582	713,015
Financial Liabilities						
U.S. Dollar	94,179	31.99	3,012,803	44,698	29.13	1,302,025
Japanese Yen	1,261,023	0.3465	436,888	958,859	0.3582	373,454

24. SEGMENT AND GEOGRAPHIC INFORMATION

The Company engages mainly in the research and development, manufacturing, assembly and testing of semiconductors. In accordance with Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 280-10-50, the Company's chief operating decision maker has been identified as the Chief Executive Officer, who reviews these segment results by Testing, Assembly, Testing and Assembly for LCD and other Flat-Panel Display Driver Semiconductors when making decisions about allocating resources and assessing the performance of the Company. Financial segment information required by FASB ASC 280-10-50 is as follows:

- a. Semiconductor testing, assembly and LCD and other flat-panel display driver semiconductors services.

	2008				Corporate & Other Assets NT\$	Consolidated Totals NT\$
	Testing NT\$	Assembly NT\$	LCD NT\$	Segment Totals NT\$		
(in thousands)						
Revenue from customers	8,787,047	5,417,621	2,805,494	17,010,162		17,010,162
Cost of revenues	7,926,469	5,741,513	3,301,898	16,969,880		16,969,880
Segment gross profit (loss)	860,578	(323,892)	(496,404)	40,282		40,282
Total operating expenses						(3,683,914)
Other non operating income						554,981
Interest expense						(765,005)
Fair value loss on financial asset						(148,569)
Loss on embedded derivative						(105,110)
Impairment loss recognized during the year						(1,602,884)
Other non operating expense						(1,220,164)
Loss before income tax, noncontrolling interests and interest in bonuses paid by subsidiaries						(6,930,383)
Depreciation and amortization	4,051,282	1,392,195	1,680,046	7,123,523	51,001	7,174,524

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Expenditure for segment assets	1,234,483	739,019	212,161	2,185,663	2,730	2,188,393
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24. SEGMENT AND GEOGRAPHIC INFORMATION (continued)

	2009				Corporate & Other	Consolidated
	Testing NT\$	Assembly NT\$	LCD NT\$	Segment Totals NT\$	Assets NT\$	Totals NT\$
	(in thousands)					
Revenue from customers	5,171,207	4,352,836	2,626,265	12,150,308		12,150,308
Cost of revenues	7,362,399	5,111,252	3,187,801	15,661,452		15,661,452
Segment gross loss	(2,191,192)	(758,416)	(561,536)	(3,511,144)		(3,511,144)
Total operating expenses						(1,594,316)
Fair value gain on financial asset						62,674
Gain on extinguishment of convertible notes						412,337
Gain on embedded derivative						50,740
Other non operating income						142,440
Interest expense						(439,411)
Impairment loss recognized during the year						(25,543)
Other non operating expense						(86,495)
Loss before income tax, noncontrolling interests and interest in bonuses paid by subsidiaries						(4,988,718)
Segment assets	12,160,688	4,790,237	3,818,067	20,768,992		20,768,992
Long-term investment						219,966
Corporate and other assets						9,367,262
Total assets						30,356,220
Depreciation and amortization	3,779,168	1,206,440	1,491,615	6,477,223	47,373	6,524,596
Expenditure for segment assets	3,188,750	233,298	57,634	3,479,682		3,479,682
	2010				Corporate & Other	Consolidated
	Testing NT\$	Assembly NT\$	LCD NT\$	Segment Totals NT\$	Assets NT\$	Totals NT\$ US\$
	(in thousands)					
Revenue from customers	6,169,705	6,258,815	4,781,213	17,209,733	17,209,733	590,588
Cost of revenues	6,417,644	6,053,881	4,092,478	16,564,003	16,564,003	568,428
Segment gross profit (loss)	(247,939)	204,934	688,735	645,730	645,730	22,160
Total operating expenses					(1,154,753)	(39,628)
Fair value gain on financial asset					3,918	134
Recovery of allowance for doubtful receivables					2,716,880	93,235
Claim received					2,118,490	72,700
Other non operating income					372,695	12,790

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Interest expense						(683,486)	(23,455)
Loss on embedded derivative						(260,654)	(8,945)
Impairment loss recognized during the year						(391,646)	(13,440)
Loss on sale of receivables						(1,067,791)	(36,643)
Other non operating expense						(487,817)	(16,741)
Income before income tax, noncontrolling interests and interest in bonuses paid by subsidiaries						1,811,566	62,167
Segment assets	8,681,506	3,866,062	4,725,400	17,272,968		17,272,968	592,758
Long-term investment						10,537	362
Corporate and other assets						14,031,525	481,521
Total assets						31,315,030	1,074,641
Depreciation and amortization	3,797,698	1,020,979	1,429,645	6,248,322	33,307	6,281,629	215,567
Expenditure for segment assets	1,380,029	512,489	2,344,760	4,237,278		4,237,278	145,411

The corporate and other assets consist of the total current assets, intangible assets and other assets.

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24. SEGMENT AND GEOGRAPHIC INFORMATION (continued)

b. Net revenue:

<u>Area</u>	Year Ended December 31,			
	2008 NT\$	2009 NT\$	2010 NT\$	US\$
	(in thousands)			
ROC	10,304,575	7,330,964	12,684,431	435,293
U.S.	5,773,109	3,998,989	3,780,058	129,721
Korea	468,967	352,642	430,746	14,782
Japan	111,774	167,475	120,673	4,141
Others	351,737	300,238	193,825	6,651
	17,010,162	12,150,308	17,209,733	590,588

c. Net sales to customers representing at least 10% of net total sales:

<u>Customer</u>	2008		Year Ended December 31, 2009		2010		Amount US\$
	Amount NT\$	%	Amount NT\$	%	Amount NT\$	%	
	(in thousands)						
Spanion	3,927,770	23	1,867,515	15	1,086,031	6	37,269
ProMOS	3,114,149	18	667,800	5	2,033,342	12	69,778
Novatek	1,596,596	9	1,403,887	12	3,166,799	18	108,675
Micron Technology Inc.	1,063,241	6	1,252,507	10	1,477,440	9	50,701

25. SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN ACCOUNTING PRINCIPLES FOLLOWED BY THE COMPANY AND ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the Republic of China (ROC GAAP), which differ in the following respects from accounting principles generally accepted in the United States of America (U.S. GAAP):

a. Bonuses to employees, directors and supervisors

According to ROC regulations and the Articles of Incorporation of ChipMOS Taiwan and ThaiLin, a portion of distributable earnings should be appropriated as bonuses to employees and remuneration to directors and supervisors of ChipMOS Taiwan and ThaiLin. The remuneration to directors and supervisors is paid in cash, while bonuses to employees may be granted in cash or stock or both. ChipMOS Bermuda's portion of these appropriations is charged to earnings of ChipMOS Bermuda under ROC GAAP based on the amount to be paid as provided by ChipMOS Taiwan and ThaiLin's Articles of Incorporation and is presented as a separate line item below noncontrolling interest in the accompanying consolidated statements of operations. During 2008, ChipMOS Taiwan and ThaiLin paid NT\$386,698 thousand and NT\$57,908 thousand, respectively, to directors, supervisors and employees as bonuses. During 2009, ChipMOS Taiwan and ThaiLin did not pay any bonuses to directors, supervisors and employees. Commencing from January 1, 2009, bonuses to employees, directors and supervisors were accrued according to the Articles of Incorporation. As ChipMOS Taiwan and ThaiLin incurred losses for the year ended December 31, 2009, no bonuses were accrued. During 2010, ChipMOS Taiwan and ThaiLin accrued nil and NT\$28,653 thousand to employees, directors and supervisors as bonuses. There are no difference between ROC GAAP and U.S. GAAP effective January 1, 2009.

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25. SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN ACCOUNTING PRINCIPLES FOLLOWED BY THE COMPANY AND ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES (continued)

b. Technologies transferred in payment of capital stock

Pursuant to a Joint Venture Agreement entered into between MVI and SPIL on July 28, 1997, MVI and SPIL contributed, as payment for their subscription in the shares of stock of ChipMOS Taiwan, technologies relating to the testing and assembly of semiconductors at an agreed value of NT\$750,000 thousand. Under ROC GAAP, such technology transfers in payment of capital stock are recorded as an intangible asset, and amortized by systematic charges to income over the periods estimated to be benefited. As permitted under ROC GAAP, the Company uses a five-year amortization period. Under U.S. GAAP, the technology contribution cannot be recognized due to the unavailability of a fair value for the technologies. Therefore, the carrying value of the technologies has been adjusted to zero under U.S. GAAP.

c. Start-up costs

ROC GAAP requires start-up costs to be deferred and amortized in a systematic manner over its estimated useful beneficial life. Start-up costs include all costs incurred prior to production readiness. On the other hand, U.S. GAAP primarily requires that start-up costs be expensed as incurred. Some of the expenses were recorded in manufacturing expenses and therefore also affect ending inventory balances under U.S. GAAP.

d. Depreciation of property, plant and equipment and employee dormitory building

Under ROC GAAP, the estimated life of a building can be as long as 55 years based on the ROC Internal Revenue Code. For U.S. GAAP purposes, building lives are estimated to be 25 years. Some of the depreciation expenses were recorded in manufacturing expenses and therefore also affect ending inventory balances under U.S. GAAP.

e. Transfer of building and facilities from MVI

The Company purchased buildings and facilities from MVI in 1997. The costs of assets purchased from MVI were based on MVI's book value of such building and facilities on a specified cut-off date plus an additional payment of NT\$173,174 thousand representing compensation to MVI. This additional payment of NT\$173,174 thousand was capitalized by the Company as allowed under ROC GAAP. Under U.S. GAAP, assets acquired are recorded at amounts that do not exceed their fair values. Also, generally under U.S. GAAP, the transferee should record the assets transferred from related parties with significant influence at the predecessor's basis. Therefore, the transfer of assets from MVI was recorded at MVI's predecessor cost basis and NT\$173,174 thousand was deducted from the capital surplus and building and facilities for the purposes of U.S. GAAP. Some of the related depreciation expenses were recorded in manufacturing expenses and therefore also affect ending inventory balances under U.S. GAAP.

f. Impairment of long-lived assets

Impairment assessments are made by the Company when events and circumstances exist that indicate the carrying value of these assets may not be recoverable. In view of the sustained losses incurred by ChipMOS Shanghai, the Company reviewed ChipMOS Shanghai's property, plant and equipment and land use rights for potential impairment as at December 31, 2009 and 2010.

Under U.S. GAAP, impairment losses for assets to be held and used are recorded in current period earnings and create a new cost basis for related assets going forward, and cannot be reversed subsequently. Under U.S. GAAP, in accordance with FASB ASC 360 Property, Plant and Equipment, long-lived assets held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized only if the carrying amount of a long-lived asset (asset group) is not recoverable and exceeds its fair value. The carrying amount of a long-lived asset (asset group) is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset (asset group). That assessment shall be based on the carrying amount of the asset (asset group) at the date it is tested for recoverability, whether in use or under development. An impairment loss shall be measured as the amount by which the carrying amount of a long-lived asset (asset group) exceeds its fair value. Fair value is determined by the Company using future cash flows discounted at current rates. There are no differences in impairment loss recognized under ROC GAAP and U.S. GAAP in 2008, 2009 and 2010.

g. Earnings per share (EPS)

In calculating the weighted average number of shares outstanding for EPS purposes under ROC GAAP, employee bonus shares have been treated as outstanding for all periods in a manner similar to a stock split or stock dividend. Under U.S. GAAP, employee bonus shares have been considered separately from the stock dividend or split and have been treated as outstanding from the date of shareholder approval.

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25. SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN ACCOUNTING PRINCIPLES FOLLOWED BY THE COMPANY AND ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES (continued)

h. Interest capitalization

Under ROC GAAP, interest on borrowings during construction conceptually should be capitalized in the assets that are constructed or produced for a company's own use. However, if equity capital is raised during a year, no capitalization interest is recorded for the amount of property acquired up to the equity capital raised in that year. Under U.S. GAAP, FASB ASC 835 - Interest, interest is generally capitalized on assets until they are available and ready for use.

i. Inventories stated at lower of cost or market

ROC GAAP allows assessment of carrying values of inventories on an aggregate basis. An allowance was made when the aggregate carrying values of inventories were higher than market.

Under U.S. GAAP, the Company's assessed inventories at the lower of cost or market on an item-by-item basis. This resulted in an additional write-off of NT\$36,818 thousand which was charged to the consolidated statement of operations as a component of cost of revenue in 2008.

Under ROC GAAP and effective January 1, 2009, the Company adopted the revised SFAS No. 10. The Company is required to assess inventories at the lower of cost or market on an item-by-item basis. Therefore, there are no difference between ROC GAAP and U.S. GAAP effective January 1, 2009. The adjustment in 2009 relates to reversal of the allowance made under U.S. GAAP in 2008.

j. Convertible notes

Under ROC GAAP, there is no requirement to account for the fair value of a conversion feature embedded in CN due 2009 as it was issued before January 1, 2006. Under U.S. GAAP, the Company accounts for the fair value of the conversion feature of its convertible notes in accordance with FASB ASC 815 - Derivative and Hedging, which require the Company to bifurcate and separately account for the conversion feature as embedded derivatives contained in the Company's convertible notes. The Company carried these embedded derivatives on its balance sheet at fair value and changes in fair values of these embedded derivatives are reflected in the consolidated statement of operations. Commencing January 1, 2006, ROC GAAP requires the Company to bifurcate and separately account for put and call option features contained in the Company's convertible notes issued after 2005. The Company issued convertible notes (CN due 2011) on September 29, 2006. The Company carried the put and call options of the CN due 2011 on the balance sheet at fair value with changes in fair values reflected in the consolidated statement of operations. The other conversion features are recorded in equity. (See Note 26 i.)

Commencing from January 1, 2006, under ROC GAAP, the issue costs of convertible notes are recorded as a reduction of the convertible notes. Under U.S. GAAP the issue costs are capitalized as deferred assets and amortized over the period of the convertible notes.

There is no difference under ROC GAAP and U.S. GAAP in accounting for the CN due 2014 and 2015 (See Note 13).

k. Share-based payments

Under ROC GAAP, the Company followed Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB No. 25), in accounting for its employee stock option plans prior to January 1, 2008. Under APB No. 25, when the exercise price of the Company's stock options is less than the market price of the underlying shares on the date of grant, compensation expense is recognized. Under U.S. GAAP, commencing from January 1, 2006, the Company applies FASB ASC 718 - Compensation - Stock Compensation, with respect to options and warrants issued to non-employees. FASB ASC 718 requires the use of option valuation models to measure the fair value of the options and warrants at the measurement date. The total stock-based compensation expense resulting from stock options was included in the consolidated statements of operations. There is no difference between ROC GAAP and U.S. GAAP effective January 1, 2008 upon adoption of ROC SFAS No. 39 for options granted since January 1, 2008.

Table of Contents**25. SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN ACCOUNTING PRINCIPLES FOLLOWED BY THE COMPANY AND ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES (continued)****l. Defined Benefit Pension Plans**

Under U.S. GAAP, commencing from January 1, 2006, the Company applies FASB ASC 715 Compensation Retirement Benefits. FASB ASC 715 requires an employer that sponsors one or more defined benefit pension plans or other postretirement plans to 1) recognize the funded status of a plan, measured as the difference between plan assets at fair value and the benefit obligation, in the balance sheet; 2) recognize in equity as a component of accumulated other comprehensive loss, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not yet recognized as components of net periodic benefit cost; 3) measure defined benefit plan assets and obligations as of the date of the employer's fiscal year-end balance sheet; and 4) disclose in the notes to the financial statements additional information about the effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits, and transition asset or obligation. Under ROC GAAP, there is no such requirement for recognition.

m. Income tax expense

Effective January 1, 2007, the Company adopted FASB ASC 740 Income Taxes. FASB ASC 740 prescribes a more-likely-than-not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognizing of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions and income tax disclosures.

Uncertain tax positions have been classified as non-current income tax liabilities unless these are expected to be paid in one year. The Company's policy for interest and penalties related to income tax exposure is to recognize interest and penalties as a component of the provision of income taxes in the consolidated statement of operations.

The Company is potentially subject to income tax audits in the ROC and internationally until the applicable statute of limitations expire. Tax audits by their nature are often complex and can require several years to complete. The following is a summary of tax years, potentially subject to examination, in the significant tax and business jurisdictions in which the Company operates:

Jurisdiction	Tax Years Subject to Examination
Republic of China	5 Years
United States	3 Years
Hong Kong	6 Years
People's Republic of China	Unlimited

As of December 31, 2010, the allowance for current tax assets was decreased by NT\$3,001 thousand (US\$103 thousand).

The Company's subsidiaries are currently under examination by the relevant tax authorities for various tax years. The Company regularly assesses the potential outcome of these examinations in each of the taxing jurisdictions when determining the adequacy of the amount of unrecognized tax benefit recorded. While it is often difficult to predict the final outcome or the timing of resolution of any particular uncertain tax position, the Company believes it has appropriately accrued for uncertain tax benefits. However, audit outcomes and timing of audit settlements and future events that would impact the previously recorded unrecognized tax benefits and the range of anticipated increases or decreases in unrecognized tax benefits are subject to significant uncertainty. It is possible that the ultimate outcome of current or future examinations may exceed current unrecognized tax benefits in amounts that could be material, but cannot be estimated as of December 31, 2010. The effective tax rate and net income in any given future period could therefore be materially impacted.

There are no such provisions under ROC GAAP.

Table of Contents**25. SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN ACCOUNTING PRINCIPLES FOLLOWED BY THE COMPANY AND ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES (continued)****n. Cash and cash equivalents**

Under ROC GAAP, cash and cash equivalents include time deposits regardless of its maturity date. Under U.S. GAAP, cash equivalents are short-term, highly liquid investments that are readily convertible to cash with original maturities of three months or less. Thus, time deposits with original maturities of more than three months are classified as cash equivalents under ROC GAAP but should be included in other current assets under U.S. GAAP.

o. Classification of non-operating income (expenses)

Under ROC GAAP, gains on disposal of plant and equipment, land use rights, scrap material and tooling and claim received are recorded as non-operating income; and loss on sale of receivables, impairment losses on property, plant and equipment, other assets, and goodwill are recorded as non-operating expenses as these items represent revenue and expenses not arising from ordinary operating activities.

Under U.S. GAAP, gains on disposal of plant and equipment, land use rights, scrap material and tooling and claim received are recorded as other operating income; and loss on sale of receivables, impairment losses on property, plant and equipment, other assets, and goodwill are recorded as operating expenses.

The following reconciles net income (loss) and equity under ROC GAAP as reported in the accompanying consolidated financial statements to net income and equity amounts determined under U.S. GAAP, giving effect to adjustments for the differences listed above.

	2008 NT\$	Year Ended December 31,		US\$
		2009 NT\$	2010 NT\$	
		(in thousands)		
Net income (loss) attributable to ChipMOS				
Net income (loss) based on ROC GAAP	(7,270,245)	(4,418,683)	1,644,732	56,442
Adjustments:				
Amortization of deferred charge	(13,719)	(446)	(446)	(15)
Amortization of start-up costs	1,694	1,597	35	1
Pension expenses	(11,797)	(17,358)	(22,075)	(758)
Depreciation of property, plant and equipment and employee dormitory building	(56,169)	(56,430)	(56,125)	(1,926)
Transfer of building and facilities from MVI	196	160	159	6
Interest capitalization	(15,539)	(14,064)		
Reversal of accrual for bonuses to employees, directors and supervisors	368,945			
Loss on inventory valuation	(36,818)	36,818		
Impairment loss on goodwill	(52,007)			
Effect of U.S. GAAP adjustments on income taxes	29,608	12,319	13,260	455
Adjustment for uncertain tax positions	10,785	20,228	3,001	103
Stock-based compensation	(257,460)	(40,705)	13,252	455
Amortization of discount on convertible notes	(95,468)	(88,603)		
Gain on embedded derivative liabilities	306,701			
Loss on redemption of convertible notes	(97,227)			
Noncontrolling interests	10,859	14,880	21,109	724
Net increase (decrease) in net income	92,584	(131,604)	(27,830)	(955)
Net income (loss) based on U.S. GAAP	(7,177,661)	(4,550,287)	1,616,902	55,487

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Earnings (loss) per share - basic	(342.24)	(230.00)	67.45	2.31
Earnings (loss) per share - diluted	(342.24)	(236.60)	66.35	2.28
Number of weighted average shares outstanding - basic	20,974	19,784	23,971	23,971
Number of weighted average shares outstanding - diluted	20,974	20,749	26,806	26,806

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25. SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN ACCOUNTING PRINCIPLES FOLLOWED BY THE COMPANY AND ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES (continued)

The following table reconciles the denominator to calculate basic and diluted earnings (loss) per share:

	2008	December 31, 2009	2010
	(in thousands)		
Basic number of shares	20,974	19,784	23,971
Add: Stock options			288
Convertible notes		965	2,547
Diluted number of shares	20,974	20,749	26,806

The following table reconciles the numerator to calculate basic and diluted earnings (loss) per share:

	2008	Year Ended December 31,		US\$
	NT\$	2009	2010	
	(in thousands)			
Net income (loss) based on U.S. GAAP	(7,177,661)	(4,550,287)	1,616,902	55,487
Add: Amortization of discount on convertible notes		3,737	9,909	340
Interest expense (net of tax)		(309,298)	(18,423)	(632)
Loss (gains) on embedded derivative		(50,740)	181,436	6,227
Amortization of deferred charge on convertible notes			446	15
Foreign exchange gain		(2,658)	(11,541)	(396)
Income (loss) attributable to ChipMOS adjusted for the effects of assumed exercise of options and conversion of notes	(7,177,661)	(4,909,246)	1,778,729	61,041

	2008	Year Ended December 31,		US\$
	NT\$	2009	2010	
	(in thousands)			
Equity				
Equity based on ROC GAAP	14,542,813	9,952,217	14,043,459	481,931
Adjustments:				
Technology transfer in payment of capital stock				
Original cost	(750,000)	(750,000)	(750,000)	(25,738)
Accumulated amortization of technology transfer in payment of capital stocks	750,000	750,000	750,000	25,738
Start-up costs				
Original cost	(51,283)	(49,825)		
Accumulated amortization of start-up costs	49,705	49,825		
Net effect on inventories	(54)	(35)		
Depreciation of property, plant and equipment and employee dormitory building	(227,438)	(283,868)	(339,993)	(11,668)
Transfer of building and facilities from MVI				
Original cost	(173,174)	(173,174)	(173,174)	(5,943)
Depreciation and gain on disposal of building and facilities from MVI	170,361	170,519	170,677	5,857
Net effect on inventories	(6)	(4)	(3)	
Pension expenses	(237,321)	(278,795)	(390,980)	(13,417)
Loss on inventory valuation	(36,818)			
Impairment loss on goodwill	(52,007)			

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Interest capitalization	118,757	118,757	118,757	4,075
Amortization of interest capitalization	(129,717)	(143,781)	(143,781)	(4,934)
Effect of U.S. GAAP adjustments on income taxes	62,968	75,287	88,547	3,039
Adjustment for uncertain tax positions	(24,475)	(4,247)	(1,246)	(43)
Equity component of convertible notes	(466,151)	(466,151)	(466,151)	(15,997)
Loss on redemption of convertible notes	(129,299)	(129,299)	(129,299)	(4,437)
Amortization of deferred charge	(38,376)	(38,822)	(39,268)	(1,348)
Amortization of discount on convertible notes	(518,966)	(607,569)	(607,569)	(20,850)
Gain on embedded derivative liabilities	1,242,621	1,242,621	1,242,621	42,644
Noncontrolling interests	52,007			
Net decrease in equity	(388,666)	(518,561)	(670,862)	(23,022)
Equity based on U.S. GAAP	14,154,147	9,433,656	13,372,597	458,909

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25. SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN ACCOUNTING PRINCIPLES FOLLOWED BY THE COMPANY AND ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES (continued)

	2008 NT\$	Year Ended December 31,		US\$
		2009 NT\$	2010 NT\$	
(in thousands)				
Changes in equity based on U.S. GAAP				
Balance, beginning of the year	21,650,888	14,154,147	9,433,656	323,736
Stock purchased by a subsidiary	(1,779)	(79,936)		
Interest payment for convertible notes			29,216	1,003
Convertible notes conversion			1,078,008	36,994
Issuance of option warrants	65,111	90,600	43,872	1,505
Exercise of option warrants	4,548		1,450	50
Stock-based compensation	257,460	40,705	(13,252)	(455)
Cumulative translation adjustments	156,250	(29,197)	(78,466)	(2,693)
Net income (loss) for the year	(7,177,661)	(4,550,287)	1,616,902	55,487
Adjustment of equity method for long-term Investment	95,186	2,724	(3,260)	(112)
Unrecognized pension expenses	952	(20,760)	(53,698)	(1,842)
Noncontrolling interests	(896,808)	(174,340)	1,318,169	45,236
Balance, end of the year	14,154,147	9,433,656	13,372,597	458,909

A reconciliation of the significant balance sheet accounts to the approximate amounts determined under U.S. GAAP is as follows:

	2009 NT\$	December 31,		US\$
		2010 NT\$		
(in thousands)				
Current assets				
As reported	8,431,233	12,790,298	438,926	
U.S. GAAP adjustments				
Effect of inventory adjustments:				
Start-up costs	(35)			
Depreciation of fixed assets	1,101	1,059	36	
Transfer of building and facilities from MVI	(4)	(3)		
Adjustment for uncertain tax positions	(6,207)	(6,207)	(213)	
As adjusted	8,426,088	12,785,147	438,749	
Property, plant and equipment - net				
As reported	20,768,992	17,272,968	592,758	
U.S. GAAP adjustments				
Depreciation of fixed assets	(266,913)	(321,365)	(11,028)	
Transfer of building and facilities from MVI	(2,655)	(2,497)	(86)	
Interest capitalization	(25,024)	(25,024)	(859)	
As adjusted	20,474,400	16,924,082	580,785	
Other assets				
As reported	833,208	1,146,962	39,360	
U.S. GAAP adjustments				
Depreciation of employee dormitory building	(18,056)	(19,687)	(676)	

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Deferred charge	780	334	12
Effect of U.S. GAAP adjustment on income tax	75,287	88,547	3,039
Adjustments for uncertain tax position	1,960	4,961	170
As adjusted	893,179	1,221,117	41,905

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25. SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN ACCOUNTING PRINCIPLES FOLLOWED BY THE COMPANY AND ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES (continued)

	2009 NT\$	December 31, 2010 NT\$ (in thousands)	US\$
Other liabilities			
As reported	104,909	97,079	3,331
U.S. GAAP adjustments			
Pension	278,795	390,980	13,417
As adjusted	383,704	488,059	16,748

As a result of the adjustments presented above, the approximate amounts of total assets under U.S. GAAP were NT\$30,116,454 thousand and NT\$31,035,148 thousand as of December 31, 2009, and 2010, respectively.

The following U.S. GAAP condensed statements of operations for the years ended December 31, 2008, 2009 and 2010 have been derived from the audited financial statements and reflect the adjustments presented above. Certain accounts have been reclassified to conform to U.S. GAAP.

	2008 NT\$	Year Ended December 31, 2009 NT\$		2010 NT\$	US\$
		(in thousands)			
Net revenue	17,010,162	12,150,308	17,209,733	590,588	
Cost of revenue	(17,068,345)	(15,690,962)	(16,634,902)	(570,861)	
Gross profit (loss)	(58,183)	(3,540,654)	574,831	19,727	
Other operating income	193,955	97,265	5,039,578	172,943	
Operating expenses	(6,571,724)	(1,726,537)	(2,670,660)	(91,649)	
Income (loss) from operations	(6,435,952)	(5,169,926)	2,943,749	101,021	
Non-operating income (expenses) - net	(815,465)	2,176	(1,197,383)	(41,091)	
Income (loss) before income tax	(7,251,417)	(5,167,750)	1,746,366	59,930	
Net income (loss) attributable to ChipMOS	(7,177,661)	(4,550,287)	1,616,902	55,487	

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26. ADDITIONAL DISCLOSURES REQUIRED BY U.S. GAAP

a. Recent accounting pronouncements

In April 2010, the FASB issued Accounting standard Update No. 2010-13 (ASU 2010-13). This update is to address the classification of an employee share-based payment award with an exercise price denominated in the currency of a market in which the underlying equity security trades. FASB ASC 718 Compensation Stock Compensation provides guidance on the classification of a share based payment award as either not a market, performance, or service condition is required to be classified as a liability. This update is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. The adoption of ASU No. 2010-13 is unlikely to have a material impact on the Company s results and financial position.

In December 2010, the FASB issued ASU 2010-29 to address diversity in practice about the interpretation of the pro forma revenue and earnings disclosure requirements for business combinations. The disclosures include pro forma revenue and earnings of the combined entity for the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period. If comparative financial statements are presented, the pro forma revenue and earnings of the combined entity for the comparable prior reporting period should be reported as though the acquisition date for all business combinations that occurred during the current year had been as of the beginning of the comparable prior annual reporting period. This update is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The adoption of ASU No. 2010-29 may impact the Company s disclosure in its consolidated financial statements in future periods.

b. FASB ASC 820 Fair Value Measurements and Disclosures establishes a fair value hierarchy that distinguishes between assumptions based on market data (observable inputs) and the Company s assumptions (unobservable inputs). The hierarchy consists of three broad levels as follows:

Level 1 Quoted market prices in active markets for identical assets or liabilities

Level 2 Inputs other than level 1 that are either directly or indirectly observable

Level 3 Unobservable inputs developed using the Company s estimates and assumptions, which reflect those that market participants would use.

The following table sets forth the assets measured at fair value on a recurring basis, by input level, as of December 31, 2010:

	Level 1 NT\$	Level 2 NT\$	Level 3 NT\$	Total NT\$
		(in thousands)		
Financial assets at fair value through profit and loss	2,999			2,999

Financial assets at fair value through profit and loss include investments in stocks and open-ended funds, which are measured using quoted price in active markets and are classified as Level 1.

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26. ADDITIONAL DISCLOSURES REQUIRED BY U.S. GAAP (continued)

c. Income tax expense

Income (loss) before income tax, noncontrolling interest and interest in bonuses paid by subsidiaries consists of the following:

	2008 NT\$	Year Ended December 31,		US\$
		2009 NT\$	2010 NT\$	
		(in thousands)		
Bermuda	(1,359,727)	80,964	(951,545)	(32,654)
ROC	(3,782,118)	(5,170,100)	2,242,375	76,952
Others	(2,109,572)	(78,614)	455,536	15,632
	(7,251,417)	(5,167,750)	1,746,366	59,930

Income tax expense (benefit) consists of:

	2008 NT\$	Year Ended December 31,		US\$
		2009 NT\$	2010 NT\$	
		(in thousands)		
Income tax for the current year				
Bermuda	346,754	6,267	6,585	226
ROC	4,867		19,366	664
Others	1,016	2,049	1,774	61
	352,637	8,316	27,725	951
Deferred income tax				
ROC	(332,955)	(483,604)	(143,227)	(4,915)
Others	262,435	(1)	(29,777)	(1,022)
	(70,520)	(483,605)	(173,004)	(5,937)
Adjustment of prior years income taxes	(201,717)	22,080	29,658	1,018
Income tax expense (benefit)	80,400	(453,209)	(115,621)	(3,968)

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26. ADDITIONAL DISCLOSURES REQUIRED BY U.S. GAAP (continued)

c. Income tax expense (continued)

Reconciliation between the income tax calculated on pre-tax financial statement income based on the statutory tax rate and the income tax expense which conforms to U.S. GAAP is as follows:

	Year Ended December 31,			US\$
	2008 NT\$	2009 NT\$	2010 NT\$	
	(in thousands)			
Tax on pretax income (loss) at 0%				
Tax on pretax income (loss) at applicable statutory rates	(1,147,034)	(1,334,734)	525,738	18,042
Additional 10% on the unappropriated earnings	166,318			
Tax effects of:				
Tax-exempt (income) loss	134,173			
Permanent differences				
Non-taxable (gain)/loss on sales of investment	(2,153)	358	5,089	175
Non-deductible investment losses	74,792	(17,167)	(135,961)	(4,666)
Non-deductible expense	378,483	(91,828)	(53,479)	(1,835)
Other	9,150	3,554	925	31
Temporary differences		28,026	32,854	1,127
Tax credits - utilized	(165,909)		(9,445)	(324)
- deferred	(22,867)	4,080	515,421	17,688
Valuation allowance	871,769	703,359	(1,127,767)	(38,702)
Losses carried forward	227,739	1,088,819	(61,646)	(2,115)
Losses carried forward - deferred	(227,739)	(981,013)	82,057	2,816
Deferred tax effect of change in tax rate		139,526	80,935	2,777
Adjustment of prior year's income tax	(216,322)	3,811	29,658	1,018
Income tax expense (benefit)	80,400	(453,209)	(115,621)	(3,968)

The components of net deferred income tax assets were as follows:

	December 31,		US\$
	2009 NT\$	2010 NT\$	
	(in thousands)		
Deferred income tax assets			
Current			
Unrealized foreign exchange loss	3,200	25,248	866
Tax credits	552,781	285,891	9,811
Loss of market price decline and obsolete and slow-moving inventories	36,969	10,430	358
Unrealized loss on sale allowances	22,791	31,932	1,096
Allowance for doubtful receivables	554,152	11,013	378
Others	(450)	1,015	35
	1,169,443	365,529	12,544
Valuation allowance	(819,340)	(93,025)	(3,192)
	350,103	272,504	9,352

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Non-current			
Tax credits	412,308	163,777	5,620
Losses carried forward	1,445,742	1,178,333	40,437
Impairment loss	8,387	13,114	450
Building	665	638	22
Start-up costs	8	2	
Others	302,521	248,106	8,514
	2,169,631	1,603,970	55,043
Valuation allowances	(1,576,724)	(1,075,298)	(36,901)
	592,907	528,672	18,142
<u>Deferred income tax liabilities</u>			
Non-current			
Depreciation differences	(302,294)	(17,233)	(591)
	290,613	511,439	17,551

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26. ADDITIONAL DISCLOSURES REQUIRED BY U.S. GAAP (continued)

d. Pension plans

The impact of the adoption of FASB ASC 715 has been reflected within the consolidated financial statements as follows:

	Year Ended December 31,			
	2008 NT\$	2009 NT\$	2010 NT\$	US\$
	(in thousands)			
Components of net periodic benefit cost				
Service cost	1,579	1,518	1,325	45
Interest cost	12,463	11,340	12,292	422
Project return on plan assets	(7,910)	(6,857)	(5,140)	(176)
Net amortization and deferral:				
Unrecognized net transition obligation	(293)	53	53	2
Curtailment loss	7,295	7,568	8,355	287
Net prior service cost	(56)	(206)	(206)	(7)
Net periodic benefit cost	13,078	13,416	16,679	573
Recognized in other comprehensive income:				
Unrecognized net transition obligation	(62)	66	248	9
Net prior service cost	(4,149)	8,978	(8,243)	(284)
Unrecognized actuarial loss	3,259	15,329	52,498	1,802
Total recognized in other comprehensive income	(952)	24,373	44,503	1,527
Total recognized in total benefit cost and other comprehensive income	12,126	37,789	61,182	2,100

The estimated net transition assets and actuarial loss for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into benefits cost in 2011 is NT\$121 thousand (US\$4 thousand) and NT\$9,961 thousand (US\$342 thousand), respectively.

	Year Ended December 31,			
	2008 NT\$	2009 NT\$	2010 NT\$	US\$
	(in thousands)			
Changes in benefit obligation				
Benefit obligation at beginning of Year	475,794	496,548	546,385	18,750
Service cost	1,579	1,518	1,325	46
Interest cost	12,463	11,340	12,292	422
Plan amendments	(3,581)			
Actuarial loss	10,293	36,979	104,465	3,585
Benefit obligation at end of year	496,548	546,385	664,467	22,803
Changes in plan assets				
Fair value of plan assets at beginning of year	249,596	291,532	314,992	10,810

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Actual return on plan assets	9,156	1,755	4,415	152
Employer contribution	32,780	21,705	24,416	838
	291,532	314,992	343,823	11,800
Funds status	(205,016)	(231,393)	(320,644)	(11,003)
Unrecognized actuarial loss	(24,476)	(31,285)	(47,175)	(1,619)
Net amount recognized (recognized as accrued pension cost)	(229,492)	(262,678)	(367,819)	(12,622)

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26. ADDITIONAL DISCLOSURES REQUIRED BY U.S. GAAP (continued)

d. Pension plans (continued)

Amounts recognized in accumulated other comprehensive income, net of noncontrolling interests, consist of:

	2009 NT\$	2010 NT\$ (in thousands)	US\$
Unrecognized net transition obligation (asset)	(2,685)	(2,366)	(81)
Net prior service cost	(3,436)	(3,347)	(115)
Unrecognized loss	243,090	332,792	11,420
Gross amount recognized	236,969	327,079	11,224
Noncontrolling interests	(11,384)	(47,796)	(1,640)
Total recognized in total benefit cost and other comprehensive income	225,585	279,283	9,584
	2008	2009	2010
Actuarial assumptions			
Discount rate	2.75%	2.25%	1.75%
Rate of compensation increase	4.25%	4.25%	4.25%
Expected return on plan assets	3.00%	1.5%	2.00%

The accumulated benefit obligation for all defined benefit pension plans was NT\$247,402 thousand and NT\$304,931 thousand at December 31, 2009 and 2010, respectively.

There were no pension plans with an accumulated benefit obligation in excess of plan assets as of December 31, 2009 and 2010.

The plan assets are all invested in the Bank of Taiwan (previously known as Central Trust of China). The plan benefits are based on employees years of service and compensation. The plan assets primarily consist of cash, government loans, equity securities, notes and bonds.

The fair value of the plan assets was NT\$314,992 thousand and NT\$343,823 thousand (US\$11,800 thousand) at December 31, 2009 and 2010, respectively. As of December 31, 2009 and 2010, these assets were allocated among asset categories as follows:

Asset category	2009	2010	Current maximum allocation policy
Equity securities	24%	38%	40%
Bonds	28%	18%	
Notes	5%	11%	
Government loans	1%	1%	
Cash	42%	32%	
Total	100%	100%	

Under ROC regulation, government authority will collect the fund as Labor Retirement Fund and determine the assets allocation and investment policy.

ChipMOS Taiwan and ThaiLin anticipate contributing NT\$24,673 thousand to their pension plans during 2011.

The Company has no other post-retirement or post-employment benefit plans.

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26. ADDITIONAL DISCLOSURES REQUIRED BY U.S. GAAP (continued)

e. Statements of cash flows

ROC SFAS No. 17, Statement of Cash Flows has been applied. Its objectives and principles are similar to those set out in FASB ASC 230, Statement of Cash Flows. The principal differences between the standards relate to classification. Summarized cash flow data by operating, investing and financing activities are as follows:

	2008	Year Ended December 31,		2010
	NT\$	2009 NT\$	NT\$	US\$
	(in thousands)			
Net cash inflow (outflow) from:				
Operating activities	4,890,631	1,633,419	8,504,005	291,833
Investing activities	(2,296,914)	(1,042,532)	(3,587,217)	(123,103)
Financing activities	(1,405,512)	(2,503,796)	(1,826,440)	(62,678)
	1,188,205	(1,912,909)	3,090,348	106,052
Effect of changes in foreign exchange rate	46,329	(1,780)	(16,811)	(577)
Cash and cash equivalents at the beginning of year	4,356,483	5,591,017	3,676,328	126,161
Cash and cash equivalents at the end of year	5,591,017	3,676,328	6,749,865	231,636

f. Statements of comprehensive income

	2008	Year Ended December 31,		2010
	NT\$	2009 NT\$	NT\$	US\$
	(in thousands)			
Net income based on U.S. GAAP	(7,177,661)	(4,550,287)	1,616,902	55,487
Other comprehensive income (loss):				
Translation adjustment	156,250	(29,196)	(78,466)	(2,692)
Comprehensive income	(7,021,411)	(4,579,483)	1,538,436	52,795

g. Statements of accumulated other comprehensive income

	Unrecognized Pension Costs NT\$	Translation Adjustment NT\$	Accumulated Other Comprehensive Income NT\$
December 31, 2008	(204,825)	433,714	228,889
Addition in 2009	(20,760)	(29,196)	(49,956)
December 31, 2009	(225,585)	404,518	178,933
Addition in 2010	(53,698)	(78,466)	(132,164)

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December 31, 2010	(279,283)	326,052	46,769
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26. ADDITIONAL DISCLOSURES REQUIRED BY U.S. GAAP (continued)

h. Shareholders' equity

Employee stock-based compensation has been accounted for under FASB ASC 715.

The Company has in place a Share Option Plan (2001 Plan). Under the terms of the plan, the exercise price set on the grant of share options may not be less than the par value of a Company Share on the date of grant of such option. In August 2006, the Company adopted a second Share Option Plan (2006 Plan). The number of shares that may be issued under the two plans is 4,000,000 shares and may consist in whole or part of authorized but unissued shares of the Company which are not reserved for any other purpose. No consideration is payable for the grant of an option.

Under the plans, options may be granted to all directors, officers, employees and consultants of the Company and its affiliates. Options are exercisable for a maximum of ten years from the date on which such option is granted and five years from the date on which such option is granted if the holder of the option owns more than 10% of the combined voting power of the Company at the time the option is granted.

In September 2006, the Company adopted a share appreciation rights plan. The share appreciation rights plan provides that the directors, officers and employees of the Company and its affiliates may be granted cash-settled share appreciation rights.

The fair value for options granted has been estimated at the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

Year of grant	Risk free interest rate	Expected life	Expected volatility	Expected dividend yield
2006	4.62% ~ 4.74%	4.25 years	102.67% ~ 133.21%	0%
2007	3.32% ~ 5.04%	4.25 years	134.71% ~ 171.09%	0%
2008	1.30% ~ 3.42%	4.25 ~ 6 years	97.83% ~ 188.06%	0%
2009	1.32% ~ 2.39%	4.25 ~ 5 years	139.36% ~ 163.82%	0%
2010	0.86% ~ 2.48%	3.25 ~ 7 years	153.18% ~ 213.94%	0%

The following table presents the stock option activity for the year ended December 31, 2009 and 2010.

	Number of Options	Weighted Average Exercise Price US\$	Aggregate Intrinsic Value US\$ (in thousands)
Outstanding at December 31, 2008	2,314,640	14.84	
Granted	494,394	2.52	
Forfeited	(174,295)	15.84	
Expired	(96,250)	6.96	
Outstanding at December 31, 2009	2,538,489	12.68	
Granted	160,660	3.60	
Forfeited	(212,049)	11.84	
Exercised	(19,246)	2.44	
Expired	(353,800)	20.72	
Outstanding at December 31, 2010	2,114,054	10.80	2,103
Exercisable at December 31, 2009	1,125,613	17.92	

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Exercisable at December 31, 2010	1,196,611	12.84	581
Vested and expected to vest in 2009	2,467,845	12.80	
Vested and expected to vest in 2010	2,068,182	8.28	2,027

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26. ADDITIONAL DISCLOSURES REQUIRED BY U.S. GAAP (continued)

h. Shareholders' equity (continued)

The aggregate intrinsic value in the table above represents the total intrinsic value (i.e., the difference between the Company's closing stock price of US\$6.12 on December 31, 2010 (December 31, 2009: US\$2.84) and the exercise price, times the number of options) that would have been received by the option holders had all option holders exercised their options on December 31, 2010. The total intrinsic value of options exercised during the year ended December 31, 2010 was NT\$2,069 thousand (US\$71 thousand) (2009: nil). The total fair value of options vested and forfeited during the year ended December 31, 2010 was NT\$75,997 thousand (US\$2,608 thousand) (2009: NT\$94,157 thousand). The number of options vested during the year ended December 31, 2010 was 19,246 (2009: nil). The weighted average remaining contractual term of the outstanding options at December 31, 2010 was 3.8 (2009: 4.0) years.

As of December 31, 2010, nil (2009: NT\$12,810 thousand) of total unrecognized compensation cost related to stock options is expected to be recognized over a weighted average period of 2.3 years.

The Company's employees have the ability to exercise a stock option (i.e., remit cash consideration to the Company for the exercise price) in exchange for stock during the vesting period of the award.

The following table presents a summary of the number of and weighted average grant date fair values regarding the unvested share options as of December 31, 2010 and changes during the year then ended:

	Number of Options	Weighted Average Fair Value US\$
Unvested options outstanding at December 31, 2008	1,439,178	12.24
Granted	494,394	2.68
Vested	(346,401)	11.88
Forfeited	(174,295)	16.92
Unvested options outstanding at December 31, 2009	1,412,876	8.40
Granted	160,660	3.91
Vested	(444,044)	9.18
Forfeited	(212,049)	12.3
Unvested options outstanding at December 31, 2010	917,443	6.66

The Company's determination of fair value of employee share options on the date of grant using the Black Scholes Option Pricing Model is affected by the Company's stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to the Company's expected stock price volatility over the term of the awards. Option pricing models were developed for use in estimating the value of traded options that have no vesting or hedging restrictions and are fully transferable. Because the Company's employee stock options have certain characteristics that are significantly different from traded options, and because changes in the subjective assumptions can materially affect the estimated value, in management's opinion, the existing valuation models may not provide an accurate measure of the fair value of the Company's employee stock options. Although the fair value of employee stock options is determined in accordance with FASB ASC 715 using an option pricing model, that value may not be indicative of the fair value observed in a willing buyer/willing seller market transaction.

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26. ADDITIONAL DISCLOSURES REQUIRED BY U.S. GAAP (continued)

i. Convertible notes

The Company accounts for the conversion option in the convertible notes as derivative liabilities in accordance with FASB ASC 815. The discount attributable to the issuance date aggregate fair value of the conversion option, totaling NT\$458,659 thousand (US\$15,740 thousand), is being amortized using the effective interest method over the term of the convertible notes.

The change in fair value on revaluation of the embedded derivative liabilities represents the difference between the fair value of the embedded derivative liabilities at their original issue date and their fair value on December 31, 2010 using option pricing models. As of December 31, 2010, the fair value of the embedded derivative liabilities amounted to NT\$96,788 thousand (US\$3,321 thousand). The effect of the fair market value adjustment of NT\$260,654 thousand (US\$8,945 thousand) was recorded in the consolidated statement of operations.

The following assumptions were applied to the convertible notes using the option pricing model:

	December 31, 2010 CN due 2011	December 31, 2010 8% CN due 2014	December 31, 2010 8% CN due 2015
Market price	US\$ 6.12	US\$ 6.12	US\$ 6.12
Conversion price	US\$ 27.40	US\$ 5.00	US\$ 5.00
Term	5 years	5 years	5 years
Volatility	29.5248%	83.9600%	82.2200%
Risk-free interest rate	1.3820%	1.516%	1.613%

Please refer to Note 13 for details of the terms of the convertible notes.