

MAGNACHIP SEMICONDUCTOR Corp
Form 10-Q
November 06, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2012

or

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

For the transition period from to .

Commission File Number: 001-34791

MagnaChip Semiconductor Corporation

(Exact name of registrant as specified in its charter)

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Delaware
(State or other jurisdiction of
incorporation or organization)

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

c/o MagnaChip Semiconductor S.A.

74, rue de Merl, B.P. 709 L-2146

Luxembourg R.C.S.

Luxembourg B97483

(352) 45-62-62

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

As of October 31, 2012, the registrant had 35,963,725 shares of common stock outstanding.

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MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

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FORWARD LOOKING STATEMENTS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended, that involve risks and uncertainties. Forward-looking statements give our current expectations and projections relating to our financial condition, results of operations, plans, objectives, future performance and business. You can identify these statements by the fact that they do not relate strictly to historical or current facts. These statements may include words such as anticipate, estimate, expect, project, intend, plan, and other words and terms of similar meaning in connection with any discussion of the timing or nature of future operating or financial performance or other events. All statements other than statements of historical facts included in this report that address activities, events or developments that we expect, believe or anticipate will or may occur in the future are forward-looking statements.

These forward-looking statements are largely based on our expectations and beliefs concerning future events, which reflect estimates and assumptions made by our management. These estimates and assumptions reflect our best judgment based on currently known market conditions and other factors relating to our operations and business environment, all of which are difficult to predict and many of which are beyond our control. Although we believe our estimates and assumptions to be reasonable, they are inherently uncertain and involve a number of risks and uncertainties that are beyond our control. In addition, management's assumptions about future events may prove to be inaccurate. Management cautions all readers that the forward-looking statements contained in this report are not guarantees of future performance, and we cannot assure any reader that those statements will be realized or the forward-looking events and circumstances will occur. Actual results may differ materially from those anticipated or implied in the forward-looking statements due to the factors listed in this section and in Part II: Item 1A. Risk Factors in this report.

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

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

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Interim Consolidated Financial Statements (Unaudited)**
MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES**CONSOLIDATED BALANCE SHEETS****(Unaudited; in thousands of US dollars, except share data)**

	September 30, 2012	December 31, 2011
Assets		
Current assets		
Cash and cash equivalents	\$ 165,658	\$ 162,111
Restricted cash	136	6,830
Accounts receivable, net	148,537	125,922
Inventories, net	75,020	62,836
Other receivables	2,097	256
Prepaid expenses	9,120	6,032
Other current assets	19,270	15,909
Total current assets	419,838	379,896
Property, plant and equipment, net	229,632	182,663
Intangible assets, net	16,684	16,787
Long-term prepaid expenses	9,575	4,790
Other non-current assets	17,044	18,539
Total assets	\$ 692,773	\$ 602,675
Liabilities and Stockholders Equity		
Current liabilities		
Accounts payable	\$ 97,386	\$ 77,848
Other accounts payable	19,049	13,452
Accrued expenses	40,483	31,723
Current portion of capital lease obligations		2,852
Derivative liabilities	1,818	9,757
Other current liabilities	8,460	2,007
Total current liabilities	167,196	137,639
Long-term borrowings, net	201,586	201,389
Accrued severance benefits, net	105,051	90,755
Other non-current liabilities	11,556	6,222
Total liabilities	485,389	436,005
Stockholders equity		
Common stock, \$0.01 par value, 150,000,000 shares authorized 39,513,351 shares issued and 35,954,925 outstanding at September 30, 2012 and 39,439,115 shares issued and 37,907,575 outstanding at December 31, 2011	395	394

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Additional paid-in capital	100,834	98,929
Retained earnings	161,965	93,950
Treasury stock, 3,558,426 and 1,531,540 shares at September 30, 2012 and December 31, 2011, respectively	(34,730)	(11,793)
Accumulated other comprehensive loss	(21,080)	(14,810)
Total stockholders' equity	207,384	166,670
Total liabilities and stockholders' equity	\$ 692,773	\$ 602,675

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

Table of Contents**MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited; in thousands of US dollars, except share data)**

	Three Months Ended		Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
Net sales	\$ 221,872	\$ 200,405	\$ 601,508	\$ 592,005
Cost of sales	145,432	140,284	412,295	409,228
Gross profit	76,440	60,121	189,213	182,777
Selling, general and administrative expenses	21,388	17,881	59,690	50,740
Research and development expenses	19,470	19,003	59,063	58,115
Restructuring and impairment charges		1,621		4,096
Special expense for IPO incentive				12,146
Operating income	35,582	21,616	70,460	57,680
Other income (expenses)				
Interest expense, net	(5,746)	(5,860)	(16,945)	(19,340)
Foreign currency gain (loss), net	21,782	(68,058)	22,305	(28,465)
Loss on early extinguishment of senior notes		(1,357)		(5,460)
Others	695	(558)	1,485	(189)
	16,731	(75,833)	6,845	(53,454)
Income (loss) before income taxes	52,313	(54,217)	77,305	4,226
Income tax expense	3,901	1,793	9,290	6,138
Net income (loss)	\$ 48,412	\$ (56,010)	\$ 68,015	\$ (1,912)
Earnings (loss) per common share				
Basic	\$ 1.34	\$ (1.43)	\$ 1.85	\$ (0.05)
Diluted	\$ 1.30	\$ (1.43)	\$ 1.80	\$ (0.05)
Weighted average number of shares				
Basic	36,199,655	39,064,071	36,810,214	38,823,720
Diluted	37,324,787	39,064,071	37,692,608	38,823,720

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

Table of Contents**MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(Unaudited; in thousands of US dollars)**

	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2012	2011	2012	2011
Net income (loss)	\$ 48,412	\$ (56,010)	\$ 68,015	\$ (1,912)
Other comprehensive income (loss)				
Unrealized gain (loss) on investments	88	(156)	61	(119)
Derivative adjustments	6,802	(17,825)	7,686	(21,691)
Foreign currency translation adjustments	(13,271)	43,081	(14,017)	18,083
Total comprehensive income (loss)	\$ 42,031	\$ (30,190)	\$ 61,745	\$ (5,639)

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

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MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGE IN STOCKHOLDERS' EQUITY

(Unaudited; in thousands of US dollars)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Common Stock Held in Treasury	Accumulated Other Comprehensive Income (loss)	Total
	Shares	Amount					
Three Months Ended September 30, 2012							
Balance at July 1, 2012	36,353,545	\$ 395	\$ 100,027	\$ 113,553	\$ (28,728)	\$ (14,699)	\$ 170,548
Stock-based compensation			535				535
Issuance of new stock	2,031		20				20
Exercise of stock options	42,982		252				252
Acquisitions of treasury stock	(443,633)				(6,002)		(6,002)
Comprehensive income:							
Net income				48,412			48,412
Fair valuation of derivatives						4,019	4,019
Reclassification to net income from accumulated other comprehensive loss related to hedge derivatives						2,783	2,783
Foreign currency translation adjustments						(13,271)	(13,271)
Unrealized gains on investments						88	88
Total comprehensive income							42,031
Balance at September 30, 2012	35,954,925	\$ 395	\$ 100,834	\$ 161,965	\$ (34,730)	\$ (21,080)	\$ 207,384
Nine Months Ended September 30, 2012							
Balance at January 1, 2012	37,907,575	\$ 394	\$ 98,929	\$ 93,950	\$ (11,793)	\$ (14,810)	\$ 166,670
Stock-based compensation			1,450				1,450
Issuance of new stock	4,499		46				46
Exercise of stock options	69,737	1	409				410
Acquisition of treasury stock	(2,026,886)				(22,937)		(22,937)
Comprehensive income:							
Net income				68,015			68,015
Fair valuation of derivatives						3,374	3,374
Reclassification to net income from accumulated other comprehensive loss related to hedge derivatives						4,312	4,312
Foreign currency translation adjustments						(14,017)	(14,017)
Unrealized gains on investments						61	61
Total comprehensive income							61,745
Balance at September 30, 2012	35,954,925	\$ 395	\$ 100,834	\$ 161,965	\$ (34,730)	\$ (21,080)	\$ 207,384

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

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MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

(Unaudited; in thousands of US dollars, except share data)

	Common Stock		Additional	Retained	Accumulated	Total
	Shares	Amount	Paid-In	Earnings	Other	
			Capital		Comprehensive	
					Income (loss)	
Three Months Ended September 30, 2011						
Balance at July 1, 2011	39,357,471	\$ 394	\$ 97,987	\$ 126,255	\$ (34,822)	\$ 189,814
Forfeiture of restricted units	(3,465)					
Stock-based compensation			323			323
Comprehensive loss:						
Net loss				(56,010)		(56,010)
Fair valuation of derivatives					(16,289)	(16,289)
Reclassification to net loss from accumulated other comprehensive gain related to hedge derivatives					(1,536)	(1,536)
Foreign currency translation adjustments					43,801	43,801
Unrealized loss on investments					(156)	(156)
Total comprehensive loss						(30,190)
Balance at September 30, 2011	39,354,006	\$ 394	\$ 98,310	\$ 70,245	\$ (9,002)	\$ 159,947
Nine Months Ended September 30, 2011						
Balance at January 1, 2011	38,401,985	\$ 384	\$ 95,585	\$ 72,157	\$ (5,275)	\$ 162,851
Forfeiture of restricted units	(3,465)					
Stock-based compensation			1,140			1,140
Issuance of new stock	950,000	10	1,553			1,563
Exercise of stock options	5,486		32			32
Comprehensive loss:						
Net loss				(1,912)		(1,912)
Fair valuation of derivatives					(10,213)	(10,213)
Reclassification to net loss from accumulated other comprehensive gain related to hedge derivatives					(11,478)	(11,478)
Foreign currency translation adjustments					18,083	18,083
Unrealized loss on investments					(119)	(119)
Total comprehensive loss						(5,639)
Balance at September 30, 2011	39,354,006	\$ 394	\$ 98,310	\$ 70,245	\$ (9,002)	\$ 159,947

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

Table of Contents**MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited; in thousands of US dollars)

	Nine Months Ended	
	September 30, 2012	September 30, 2011
Cash flows from operating activities		
Net income (loss)	\$ 68,015	\$ (1,912)
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	23,840	42,368
Provision for severance benefits	16,779	13,137
Amortization of debt issuance costs and original issue discount	753	728
(Gain) loss on foreign currency translation, net	(25,304)	33,220
Gain on disposal of property, plant and equipment, net	(174)	(15)
Loss on disposal of intangible assets, net	26	17
Restructuring and impairment charges		4,096
Stock-based compensation	1,450	1,798
Loss on early extinguishment of senior notes		5,460
Other	(332)	651
Changes in operating assets and liabilities		
Accounts receivable	(18,168)	(4,400)
Inventories	(8,526)	(4,400)
Other receivables	(1,787)	836
Other current assets	(662)	(3,196)
Deferred tax assets	1,514	1,483
Accounts payable	17,472	15,072
Other accounts payable	(700)	7,157
Accrued expenses	13,761	(18,278)
Other current liabilities	9,450	(1,209)
Payment of severance benefits	(5,569)	(6,549)
Other	(2,239)	141
Net cash provided by operating activities	89,599	86,205
Cash flows from investing activities		
Decrease (increase) in restricted cash	6,774	(9,711)
Proceeds from disposal of plant, property and equipment	937	29
Purchase of plant, property and equipment	(56,745)	(42,945)
Payment for intellectual property registration	(752)	(521)
Payment for purchase of Dawin, net of cash acquired	(8,642)	
Decrease in short-term financial instruments	173	
Collection of guarantee deposits	72	984
Payment of guarantee deposits	(311)	(2,489)
Other	(50)	(625)
Net cash used in investing activities	(58,544)	(55,278)
Cash flows from financing activities		
Proceeds from issuance of common stock	436	8,835
Repurchase of senior notes		(50,307)
Repayment of obligations under capital lease	(2,968)	(4,831)
Acquisition of treasury stock	(22,937)	

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Net cash used in financing activities	(25,469)	(46,303)
Effect of exchange rates on cash and cash equivalents	(2,039)	2,672
Net increase (decrease) in cash and cash equivalents	3,547	(12,704)
Cash and cash equivalents		
Beginning of the period	162,111	172,172
End of the period	\$ 165,658	\$ 159,468
Supplemental cash flow information		
Cash paid for interest	\$ 10,921	\$ 14,004
Cash paid (refunded) for income taxes	\$ (599)	\$ 1,776
Noncash transactions		
Deferred offering costs reclassified as reduction of additional paid-in capital	\$	\$ 7,236

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

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MagnaChip Semiconductor Corporation and Subsidiaries

Notes to Consolidated Financial Statements

(Unaudited; tabular dollars in thousands, except share data)

1. General

The Company

MagnaChip Semiconductor Corporation (together with its subsidiaries, the Company) is a Korea-based designer and manufacturer of analog and mixed-signal semiconductor products for high-volume consumer applications. The Company's business is comprised of three key segments: Display Solutions, Power Solutions and Semiconductor Manufacturing Services. The Company's Display Solutions products include display drivers for use in a wide range of flat panel displays and mobile multimedia devices. The Company's Power Solutions products include discrete and integrated circuit solutions for power management in high-volume consumer applications. The Company's Semiconductor Manufacturing Services segment provides specialty analog and mixed-signal foundry services for fabless semiconductor companies that serve the consumer, computing and wireless end markets.

2. Significant Accounting Policies

Basis of Presentation

The accompanying unaudited interim consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles in the United States of America (US GAAP). These interim consolidated financial statements include all adjustments consisting only of normal recurring adjustments and the elimination of all intercompany accounts and transactions which are, in the opinion of management, necessary to provide a fair presentation of financial condition and results of operations for the periods presented. These interim consolidated financial statements are presented in accordance with ASC 270, *Interim Reporting*, (ASC 270) and, accordingly, do not include all of the information and note disclosures required by US GAAP for complete financial statements. The results of operations for the three and nine months ended September 30, 2012 are not necessarily indicative of the results to be expected for a full year or for any other periods.

The December 31, 2011 balance sheet data was derived from audited financial statements, but does not include all disclosures required by US GAAP.

Recent Accounting Pronouncements

In July 2012, the FASB issued ASU 2012-02, *Testing Indefinite-Lived Intangible Assets for Impairment* (ASU 2012-02). Under ASU 2012-02, testing the decline in the realizable value (impairment) of indefinite-lived intangible assets other than goodwill has been simplified. ASU 2012-02 allows the Company the option to first assess qualitative factors to determine whether it is necessary to perform the quantitative impairment test. The Company electing to perform a qualitative assessment is no longer required to calculate the fair value of an indefinite-lived intangible asset unless the Company determines, based on a qualitative assessment, that it is more likely than not that the asset is impaired. ASU 2012-02 is effective for impairment tests for fiscal years beginning after September 15, 2012. The adoption of ASU 2012-02 is not expected to have a material impact on the Company's consolidated financial statements.

In December 2011, the FASB issued ASU 2011-11, *Disclosures about Offsetting Assets and Liabilities* (ASU 2011-11) which requires an entity to disclose information about offsetting and related arrangements to ensure that the users of the Company's financial statements can understand the effect that offsetting has on the Company's financial position. ASU 2011-11 is effective for annual periods beginning on or after January 1, 2013. Retrospective application is required for all comparative periods presented. The adoption of ASU 2011-11 is not expected to have a material impact on the Company's consolidated financial statements.

In September 2011, the FASB issued ASU No. 2011-08, *Intangibles-Goodwill and Other (Topic 350)-Testing Goodwill for Impairment* (ASU 2011-08). ASU 2011-08 gives the option to first assess qualitative factors to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to perform the first step of the two-step impairment test by calculating the fair value of the reporting unit. Under the amendments in ASU 2011-08, an entity has the option to bypass the qualitative assessment for any

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reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test. An entity may resume performing the qualitative assessment in any subsequent period. The amendments in ASU 2011-08 are effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2011. Early adoption is permitted. The Company plans to adopt the applicable requirements of ASU 2011-08 in the fourth quarter of fiscal 2012. The Company does not expect the provisions of ASU 2011-08 to have a material effect on its financial position, results of operations or cash flows.

Table of Contents**MagnaChip Semiconductor Corporation and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****(Unaudited; tabular dollars in thousands, except share data)**

In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income: Presentation of Comprehensive Income* (ASU 2011-05) which amends current comprehensive income guidance. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of shareholders' equity. Instead, it requires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. Under the two-statement approach, the first statement would include components of net income, which is consistent with the income statement format used today, and the second statement would include components of other comprehensive income (OCI). ASU 2011-05 does not change the items that must be reported in OCI.

However, in December 2011, the FASB issued ASU No. 2011-12, *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05* (ASU 2011-12), which deferred the guidance on whether to require entities to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement where net income is presented and the statement where other comprehensive income is presented for both interim and annual financial statements. ASU 2011-12 reinstated the requirements for the presentation of reclassifications that were in place prior to the issuance of ASU 2011-05 and did not change the effective date for ASU 2011-05. For public entities, the amendments in ASU 2011-05 and ASU 2011-12 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, and should be applied retrospectively. The adoption of ASU 2011-12 is not expected to have a material impact on the Company's consolidated financial statements.

3. Completion of acquisition

On March 2, 2012, the Company's Korean subsidiary, MagnaChip Semiconductor, Ltd., completed the acquisition of Dawin Electronics (the acquired company), a privately-held semiconductor company that designs and manufactures IGBT, Fast Recovery Diode and MOSFET modules.

The acquisition was accounted for as a business purchase pursuant to Accounting Standards Codification (ASC) 805, *Business Combinations* (ASC 805). As required by ASC 805-20, the Company allocated the purchase price to assets and liabilities based on their estimated fair value at the effective date of acquisition, March 2, 2012. The total consideration paid for the acquisition, amounted to \$9,291 thousand. As a result of the acquisition, the Company expects to build up IGBT and FRD business position and improve IGBT module cost structure using Dawin's developed technology and engineering know-how. The acquisition will be synergistic to the Company's Power Solution business and be accretive to its revenue which was reflected as goodwill in the amount of \$3,163 thousand at the completion of the acquisition.

4. Sales of Accounts Receivable

The Company has entered into an agreement to sell selected trade accounts receivable to a financial institution. After the sale, the Company does not retain any interests in the receivables and the applicable financial institution collects these accounts receivable directly from the customer. The proceeds from the sales of these accounts receivable totaled \$21,931 thousand for the nine month period ended September 30, 2012 and these sales resulted in a pre-tax loss of \$35 thousand for the nine month period ended September 30, 2012, which is included in selling, general and administrative expenses in the consolidated Statements of Operations. Net proceeds of these accounts receivable sale program are recognized in the Consolidated Statements of Cash Flows as part of operating cash flows.

5. Inventories

Inventories as of September 30, 2012 and December 31, 2011 consist of the following:

September 30, 2012	December 31, 2011
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Merchandise	\$	6	\$
Finished goods		11,254	7,140
Semi-finished goods and work-in-process		56,530	46,562
Raw materials		13,328	9,933
Materials in-transit		661	1,471
Less: inventory reserve		(6,759)	(2,270)
Inventories, net	\$	75,020	\$ 62,836

Table of Contents**MagnaChip Semiconductor Corporation and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****(Unaudited; tabular dollars in thousands, except share data)****6. Property, Plant and Equipment**

Property, plant and equipment as of September 30, 2012 and December 31, 2011 comprise the following:

	September 30, 2012	December 31, 2011
Buildings and related structures	\$ 76,310	\$ 73,021
Machinery and equipment	209,313	151,100
Vehicles and others	15,087	11,998
Equipment under capital lease	11,664	11,160
	312,374	242,279
Less: accumulated depreciation	(95,927)	(78,130)
accumulated depreciation on equipment under capital lease	(3,312)	(2,414)
Land	16,422	15,928
Construction in progress	75	
Property, plant and equipment, net	\$ 229,632	\$ 182,663

7. Intangible Assets

Intangible assets as of September 30, 2012 and December 31, 2011 are as follows:

	September 30, 2012	December 31, 2011
Technology	\$ 23,949	\$ 21,126
Customer relationships	27,778	26,777
Intellectual property assets	6,742	5,868
Less: accumulated amortization	(45,003)	(36,984)
Goodwill	3,218	
Intangible assets, net	\$ 16,684	\$ 16,787

Table of Contents**MagnaChip Semiconductor Corporation and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****(Unaudited; tabular dollars in thousands, except share data)****8. Derivative Financial Instruments**

The Company's Korean subsidiary, MagnaChip Semiconductor, Ltd., entered into option, forward and zero cost collar contracts to hedge the risk of changes in the functional-currency-equivalent cash flows attributable to currency rate changes on U.S. dollar denominated revenues.

Details of derivative contracts as of September 30, 2012 are as follows:

Date of transaction	Type of derivative	Total notional amount	Month of settlement
August 19, 2011	Forward	\$ 54,000	October to December 2012
March 23, 2012	Zero cost collar	\$ 54,000	January to March 2013
May 18, 2012	Zero cost collar	\$ 54,000	April to June 2013

The option, forward and zero cost collar contracts qualify as cash flow hedges under ASC 815, *Derivatives and Hedging*, (ASC 815), since at both the inception of the contracts and on an ongoing basis, the hedging relationship was and is expected to be highly effective in achieving offsetting cash flows attributable to the hedged risk during the term of the contracts. The Company is utilizing the hypothetical derivative method to measure the effectiveness by comparing the changes in value of the actual derivative versus the change in fair value of the hypothetical derivative.

The fair values of the Company's outstanding forward and zero cost collar contracts recorded as assets and liabilities as of September 30, 2012 and December 31, 2011 are as follows:

Derivatives designated as hedging instruments:		September 30, 2012	December 31, 2011
Asset Derivatives:			
Zero cost collars	Other current assets	\$ 74	\$
Liability Derivatives:			
Forward	Derivative liabilities	\$ 1,818	\$ 6,801
Zero cost collars	Derivative liabilities	\$	\$ 2,956

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of accumulated other comprehensive income (AOCI) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative, representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness, are recognized in current earnings.

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MagnaChip Semiconductor Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

(Unaudited; tabular dollars in thousands, except share data)

The following table summarizes the impact of derivative instruments on the consolidated statement of operations for the three months ended September 30, 2012 and 2011:

	Amount of Gain (Loss)		Location of Gain (Loss)	Amount of Gain (Loss)		Location of Gain (Loss)	Amount of Gain (Loss)
	Recognized in AOCI on Derivatives (Effective Portion)	Recognized in AOCI on Derivatives (Effective Portion)		Reclassified from AOCI into Statement of Income (Effective Portion)	Reclassified from AOCI into Statement of Income (Effective Portion)		
	3Q, 2012	3Q, 2011		3Q, 2012	3Q, 2011		3Q, 2012 3Q, 2011
Derivatives in ASC 815							
Cash Flow Hedging Relationships							
Forward	\$ 2,338	\$ (8,044)	Net sales	\$ (2,783)	\$	Other income (expenses) Others	\$ 619 \$ 171
Zero cost collars	1,681	(8,245)	Net sales		1,536	Other income (expenses) Others	76 (729)
Total	\$ 4,019	\$ (16,289)		\$ (2,783)	\$ 1,536		\$ 695 \$ (558)

The following table summarizes the impact of derivative instruments on the consolidated statement of operations for the nine months ended September 30, 2012 and 2011:

	Amount of Gain (Loss) Recognized in AOCI on Derivatives	Location of Gain (Loss) Reclassified from AOCI into Statement of	Amount of Gain (Loss) Reclassified from AOCI into Statement of	Location of Gain (Loss)	Amount of Gain (Loss) Recognized in Statement of
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Relationships	(Effective Portion)		Income (Effective Portion)	Income (Effective Portion)		Recognized in Statement of Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Income on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	9M, 2012	9M, 2011		9M, 2012	9M, 2011		9M, 2012	9M, 2011
Options	\$	\$ (85)	Net sales	\$	\$ (829)	Other income (expenses) Others	\$	\$ (18)
Forward	1,953	(5,337)	Net sales	(2,783)	10,771	Other income (expenses) Others	1,132	435
Zero cost collars	1,421	(4,791)	Net sales	(1,529)	1,536	Other income (expenses) Others	349	(614)
Total	\$ 3,374	\$ (10,213)		\$ (4,312)	\$ 11,478		\$ 1,481	\$ (197)

Table of Contents**MagnaChip Semiconductor Corporation and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****(Unaudited; tabular dollars in thousands, except share data)**

The estimated net loss as of September 30, 2012 that is expected to be reclassified from accumulated other comprehensive income (loss) into earnings within the next twelve months is \$1,714 thousand.

The Company's option, forward and zero cost collar contracts are subject to termination upon the occurrence of the following events:

(i) On the last day of a fiscal quarter, the sum of qualified and unrestricted cash and cash equivalents held by the Company is less than \$30 million.

(ii) The rating of the Company's debt is B- or lower by Standard & Poor's Ratings Group or any successor rating agency thereof (S&P) or B3 or lower by Moody's Investor Services, Inc. or any successor rating agency thereof (Moody's) or the Company's debt ceases to be assigned a rating by either S&P or Moody's.

In addition, the Company is required to deposit cash collateral with Goldman Sachs International Bank (GS), the counterparty to the option, forward and zero cost collar contracts, for any exposure in excess of \$5 million.

9. Fair Value Measurements

The Company's assets and liabilities measured at fair value on a recurring basis as of September 30, 2012, and the basis for that measurement is as follows:

	Carrying Value	Fair Value Measurement	Quoted Prices in Active Markets for Identical Asset (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:					
Available-for-sale securities	\$ 649	\$ 649	\$ 649	\$	\$
Other current assets	74	74		74	
Liabilities:					
Derivative liabilities	1,818	1,818		1,818	

As of September 30, 2012, the total carrying value and estimated fair value of the senior notes which are not measured at fair value on a recurring basis were \$201,586 thousand and \$230,171 thousand, respectively. The estimated fair value is based on Level 2 inputs.

Table of Contents**MagnaChip Semiconductor Corporation and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****(Unaudited; tabular dollars in thousands, except share data)****10. Accrued Severance Benefits**

The majority of accrued severance benefits is for employees in the Company's Korean subsidiary, MagnaChip Semiconductor Ltd. Pursuant to the Employee Retirement Benefit Security Act of Korea, most employees and executive officers with one or more years of service are entitled to severance benefits upon the termination of their employment based on their length of service and rate of pay. As of September 30, 2012, 98.4% of employees of the Company were eligible for severance benefits.

Changes in accrued severance benefits for each period are as follows:

	Three Months Ended September 30, 2012	Nine Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2011
Beginning balance	\$ 97,967	\$ 91,882	\$ 98,647	\$ 88,973
Provisions	5,803	16,779	4,741	13,137
Severance payments	(753)	(5,569)	(2,804)	(6,549)
Translation adjustments	3,148	3,073	(8,370)	(3,347)
	106,165	106,165	92,214	92,214
Less: Cumulative contributions to the National Pension Fund	(383)	(383)	(414)	(414)
Group Severance insurance plan	(731)	(731)	(694)	(694)
Accrued severance benefits, net	\$ 105,051	\$ 105,051	\$ 91,106	\$ 91,106

The severance benefits are funded approximately 1.05% and 1.20% as of September 30, 2012 and 2011, respectively, through the Company's National Pension Fund and group severance insurance plan which will be used exclusively for payment of severance benefits to eligible employees. These amounts have been deducted from the accrued severance benefit balance.

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

	Severance benefit
Remainder of 2012	\$ 59
2013	
2014	339
2015	350
2016	1,264
2017	1,689
2018 - 2022	17,507

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

Table of Contents**MagnaChip Semiconductor Corporation and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****(Unaudited; tabular dollars in thousands, except share data)****11. Foreign Currency Gain (Loss), Net**

Net foreign currency gain or loss includes non-cash translation gain or loss associated with intercompany balances.

12. Income Taxes

The Company files income tax returns in the U.S., Korea, Japan, Taiwan and various other jurisdictions.

MagnaChip Semiconductor Ltd. (Korea) is the principal operating entity within the consolidated Company. For the three and nine months ended September 30, 2012 and 2011, no income tax expense for MagnaChip Semiconductor, Ltd. (Korea) was recorded due to net operating loss carry-forwards available to offset taxable income and full allowance for deferred tax assets. The Company assesses whether it is more likely than not that the deferred tax assets existing at the period-end will be realized in future periods. In such assessment, the Company considers all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent results of operations. In the event the Company were to determine that it would be able to realize the deferred income tax assets in the future in excess of their net recorded amount, the Company would adjust the valuation allowance, which would reduce the provision for income taxes.

Income tax expense recorded for the three month period ended September 30, 2012 and 2011 was \$3,901 and \$1,793, respectively, and for the nine month period ended September 30, 2012 and 2011 was \$9,290 and \$6,138, respectively.

13. Geographic and Segment Information

The following sets forth information relating to the reportable segments:

	Three Months Ended	
	September 30, 2012	September 30, 2011
Net Sales		
Display Solutions	\$ 69,415	\$ 91,767
Semiconductor Manufacturing Services	117,978	81,571
Power Solutions	33,849	26,358
All other	630	709
 Total segment net sales	 \$ 221,872	 \$ 200,405

	Nine Months Ended	
	September 30, 2012	September 30, 2011
Net Sales		
Display Solutions	\$ 229,424	\$ 248,950
Semiconductor Manufacturing Services	277,158	270,295
Power Solutions	92,801	70,509
All other	2,125	2,251

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Total segment net sales	\$ 601,508	\$ 592,005
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Table of Contents**MagnaChip Semiconductor Corporation and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****(Unaudited; tabular dollars in thousands, except share data)**

The following is a summary of net sales by region, based on the location of the customer:

	Three Months Ended	
	September 30, 2012	September 30, 2011
Korea	\$ 92,914	\$ 106,698
Asia Pacific	68,296	52,922
Japan	8,250	17,123
North America	39,993	19,367
Europe	11,546	3,353
Africa	873	942
Total	\$ 221,872	\$ 200,405

	Nine Months Ended	
	September 30, 2012	September 30, 2011
Korea	\$ 285,250	\$ 293,509
Asia Pacific	187,012	169,802
Japan	21,984	48,913
North America	79,581	66,004
Europe	25,496	11,349
Africa	2,185	2,428
Total	\$ 601,508	\$ 592,005

Net sales from the Company's top ten largest customers accounted for 60.4% and 61.7% for the three months ended September 30, 2012 and 2011, respectively, and 61.7% and 61.4% for the nine months ended September 30, 2012 and 2011, respectively.

For the three months ended September 30, 2012, we had two customers which represented 11.1% and 10.5% of the Company's net sales, and for the nine months ended September 30, 2012, 12.1% and 10.5%, respectively.

For the three months and nine months ended September 30, 2011, we had one customer which represented 14.7% and 14.8% of the Company's net sales, respectively.

Over 99% of the Company's property, plant and equipment are located in Korea as of September 30, 2012.

Table of Contents**MagnaChip Semiconductor Corporation and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****(Unaudited; tabular dollars in thousands, except share data)****14. Earnings per Share**

The following table illustrates the computation of basic and diluted earnings per common share:

	Three Months Ended	
	September 30, 2012	September 30, 2011
Net income (loss)	\$ 48,412	\$ (56,010)
Weighted average common stock outstanding		
Basic	36,199,655	39,064,071
Diluted	37,324,787	39,064,071
Earnings (loss) per share		
Basic	\$ 1.34	\$ (1.43)
Diluted	\$ 1.30	\$ (1.43)

	Nine Months Ended	
	September 30, 2012	September 30, 2011
Net income (loss)	\$ 68,015	\$ (1,912)
Weighted average common stock outstanding		
Basic	36,810,214	38,823,720
Diluted	37,692,608	38,823,720
Earnings (loss) per share		
Basic	\$ 1.85	\$ (0.05)
Diluted	\$ 1.80	\$ (0.05)

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

	Nine Months Ended	
	September 30, 2012	September 30, 2011
Options	273,125	213,250
Warrants	1,875,028	1,875,018

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MagnaChip Semiconductor Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

(Unaudited; tabular dollars in thousands, except share data)

15. Condensed Consolidating Financial Information

The Company's \$203.7 million senior notes are guaranteed by the Company and all of its subsidiaries, except for MagnaChip Semiconductor, Ltd. (Korea) and MagnaChip Semiconductor (Shanghai) Company Limited. These guarantees are full and unconditional, subject to certain customary release provisions, as well as joint and several.

The senior notes are structurally subordinated to the creditors of the Company's principal manufacturing and selling subsidiary, MagnaChip Semiconductor, Ltd. (Korea), which accounts for substantially all of the Company's net sales and assets.

Below are condensed consolidating balance sheets as of September 30, 2012 and December 31, 2011, condensed consolidating statements of comprehensive income for the three months and nine months ended September 30, 2012 and 2011 and condensed consolidating statements of cash flows for the nine months ended September 30, 2012 and 2011 of those entities that guarantee the senior notes, those that do not, MagnaChip Semiconductor Corporation, and the co-issuers.

For the purpose of the guarantor financial information, the investments in subsidiaries are accounted for under the equity method.

Table of Contents**MagnaChip Semiconductor Corporation and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****(Unaudited; tabular dollars in thousands, except share data)****Condensed Consolidating Balance Sheets****September 30, 2012**

	MagnaChip Semiconductor Corporation (Parent)	Co-Issuers	Non- Guarantors	Guarantors	Eliminations	Consolidated
Assets						
Current assets						
Cash and cash equivalents	\$ 827	\$ 12,253	\$ 145,921	\$ 6,657	\$	\$ 165,658
Restricted cash			136			136
Accounts receivable, net			149,507	22,328	(23,298)	148,537
Inventories, net			75,020			75,020
Other receivables	399	36,276	7,790	364	(42,732)	2,097
Prepaid expenses	102		11,580	335	(2,897)	9,120
Other current assets	78,395	226,332	15,430	192,979	(493,866)	19,270
Total current assets	79,723	274,861	405,384	222,663	(562,793)	419,838
Property, plant and equipment, net			229,539	93		229,632
Intangible assets, net			16,524	160		16,684
Long-term prepaid expenses			13,639		(4,064)	9,575
Investment in subsidiaries	(526,931)	(608,299)		(424,624)	1,559,854	
Long-term intercompany loan	697,125	787,364		638,690	(2,123,179)	
Other non-current assets	67	5,949	8,429	2,665	(66)	17,044
Total assets	\$ 249,984	\$ 459,875	\$ 673,515	\$ 439,647	\$ (1,130,248)	\$ 692,773
Liabilities and Stockholders Equity						
Current liabilities						
Accounts payable	\$	\$	\$ 119,220	\$ 1,143	\$ (22,977)	\$ 97,386
Other accounts payable	38,386	36	19,349	4,331	(43,053)	19,049
Accrued expenses	174	87,682	219,323	227,170	(493,866)	40,483
Derivative liabilities			1,818			1,818
Other current liabilities	4,040		3,243	4,072	(2,895)	8,460
Total current liabilities	42,600	87,718	362,953	236,716	(562,791)	167,196
Long-term borrowings, net		898,711	621,000	805,054	(2,123,179)	201,586
Accrued severance benefits, net			104,867	184		105,051
Other non-current liabilities			9,261	6,426	(4,131)	11,556
Total liabilities	42,600	986,429	1,098,081	1,048,380	(2,690,101)	485,389

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Commitments and contingencies

Stockholders' equity							
Common stock	395	136,229	39,005	51,976	(227,210)	395	
Additional paid-in capital	100,834	(731,689)	(535,358)	(729,663)	1,996,710	100,834	
Retained earnings	161,965	89,985	96,017	90,215	(276,217)	161,965	
Treasury stock	(34,730)					(34,730)	
Accumulated other comprehensive loss	(21,080)	(21,079)	(24,230)	(21,261)	66,570	(21,080)	
Total stockholders' equity	207,384	(526,554)	(424,566)	(608,733)	1,559,853	207,384	
Total liabilities and stockholders' equity	\$ 249,984	\$ 459,875	\$ 673,515	\$ 439,647	\$(1,130,248)	\$ 692,773	

Table of Contents**MagnaChip Semiconductor Corporation and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****(Unaudited; tabular dollars in thousands, except share data)****Condensed Consolidating Balance Sheets****December 31, 2011**

	MagnaChip Semiconductor Corporation (Parent)	Co-Issuers	Non- Guarantors	Guarantors	Eliminations	Consolidated
Assets						
Current assets						
Cash and cash equivalents	\$ 1,677	\$ 25,119	\$ 127,118	\$ 8,197	\$	\$ 162,111
Restricted cash			6,830			6,830
Accounts receivable, net			126,391	22,179	(22,648)	125,922
Inventories, net			62,836	158	(158)	62,836
Other receivables	1	11,793	7,581	399	(19,518)	256
Prepaid expenses	34	2	8,509	384	(2,897)	6,032
Other current assets	58,636	188,018	11,738	183,685	(426,168)	15,909
Total current assets	60,348	224,932	351,003	215,002	(471,389)	379,896
Property, plant and equipment, net			182,583	80		182,663
Intangible assets, net			16,514	273		16,787
Long-term prepaid expenses			10,963	66	(6,239)	4,790
Investment in subsidiaries	(576,642)	(655,845)		(481,478)	1,713,965	
Long-term intercompany loan	697,125	809,913		660,066	(2,167,104)	
Other non-current assets		6,505	8,170	3,864		18,539
Total assets	\$ 180,831	\$ 385,505	\$ 569,233	\$ 397,873	\$ (930,767)	\$ 602,675
Liabilities and Stockholders' Equity						
Current liabilities						
Accounts payable	\$	\$	\$ 99,560	\$ 842	\$ (22,554)	\$ 77,848
Other accounts payable	13,659	1	13,115	6,195	(19,518)	13,452
Accrued expenses	502	63,033	186,678	207,770	(426,260)	31,723
Current portion of capital lease obligations			2,852			2,852
Other current liabilities		1	11,544	3,117	(2,898)	11,764
Total current liabilities	14,161	63,035	313,749	217,924	(471,230)	137,639
Long-term borrowings, net		898,514	642,383	827,596	(2,167,104)	201,389
Accrued severance benefits, net			90,611	144		90,755
Other non-current liabilities			3,894	8,567	(6,239)	6,222
Total liabilities	14,161	961,549	1,050,637	1,054,231	(2,644,573)	436,005

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Commitments and contingencies

Stockholders' equity						
Common stock	394	136,229	39,005	51,976	(227,210)	394
Additional paid-in capital	98,929	(733,223)	(536,894)	(731,209)	2,001,326	98,929
Retained earnings	93,950	35,760	35,141	37,722	(108,623)	93,950
Treasury stock	(11,793)					(11,793)
Accumulated other comprehensive loss	(14,810)	(14,810)	(18,656)	(14,847)	48,313	(14,810)
Total stockholders' equity	166,670	(576,044)	(481,404)	(656,358)	1,713,806	166,670
Total liabilities and stockholders' equity	\$ 180,831	\$ 385,505	\$ 569,233	\$ 397,873	\$ (930,767)	\$ 602,675

Table of Contents**MagnaChip Semiconductor Corporation and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****(Unaudited; tabular dollars in thousands, except share data)****Condensed Consolidating Statements of Comprehensive Income****For the three months ended September 30, 2012**

	MagnaChip Semiconductor Corporation (Parent)	Co-Issuers	Non-Guarantors	Guarantors	Eliminations	Consolidated
Net sales	\$	\$	\$ 221,971	\$ 5,166	\$ (5,265)	\$ 221,872
Cost of sales			145,431	449	(448)	145,432
Gross profit			76,540	4,717	(4,817)	76,440
Selling, general and administrative expenses	489	65	21,569	3,031	(3,766)	21,388
Research and development expenses			20,052	469	(1,051)	19,470
Operating income (loss)	(489)	(65)	34,919	1,217		35,582
Other income (expense)	8,100	7,892	12,301	(11,562)		16,731
Income (loss) before income taxes, equity in earnings of related equity investment	7,611	7,827	47,220	(10,345)		52,313
Income tax expenses	1,918		11	1,972		3,901
Income (loss) before equity in earnings of related investment	5,693	7,827	47,209	(12,317)		48,412
Equity in earnings of related investment	42,719	34,817		47,209	(124,745)	
Net income	\$ 48,412	\$ 42,644	\$ 47,209	\$ 34,892	\$ (124,745)	\$ 48,412
Comprehensive income	\$ 42,031	\$ 36,264	\$ 40,257	\$ 28,507	\$ (105,028)	\$ 42,031

Table of Contents**MagnaChip Semiconductor Corporation and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****(Unaudited; tabular dollars in thousands, except share data)****Condensed Consolidating Statements of Comprehensive Income****For the nine months ended September 30, 2012**

	MagnaChip Semiconductor Corporation (Parent)	Co-Issuers	Non-Guarantors	Guarantors	Eliminations	Consolidated
Net sales	\$	\$	\$ 601,742	\$ 14,781	\$ (15,015)	\$ 601,508
Cost of sales			412,292	1,050	(1,047)	412,295
Gross profit			189,450	13,731	(13,968)	189,213
Selling, general and administrative expenses	2,586	118	58,681	9,171	(10,866)	59,690
Research and development expenses			61,164	1,001	(3,102)	59,063
Operating income (loss)	(2,586)	(118)	69,605	3,559		70,460
Other income (expense)	19,315	1,891	(8,061)	(6,300)		6,845
Income (loss) before income taxes, equity in earnings of related equity investment	16,729	1,773	61,544	(2,741)		77,305
Income tax expenses (benefits)	3,531	(170)	288	5,641		9,290
Income (loss) before equity in earnings of related investment	13,198	1,943	61,256	(8,382)		68,015
Equity in earnings of related investment	54,817	52,661		61,255	(168,733)	
Net income	\$ 68,015	\$ 54,604	\$ 61,256	\$ 52,873	\$ (168,733)	\$ 68,015
Comprehensive income	\$ 61,745	\$ 48,335	\$ 55,682	\$ 46,459	\$ (150,476)	\$ 61,745

Table of Contents**MagnaChip Semiconductor Corporation and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****(Unaudited; tabular dollars in thousands, except share data)****Condensed Consolidating Statements of Comprehensive Income****For the three months ended September 30, 2011**

	MagnaChip Semiconductor Corporation (Parent)	Co-Issuers	Non-Guarantors	Guarantors	Eliminations	Consolidated
Net sales	\$	\$	\$ 200,405	\$ 6,692	\$ (6,692)	\$ 200,405
Cost of sales			140,291	780	(787)	140,284
Gross profit			60,114	5,912	(5,905)	60,121
Selling, general and administrative expenses	354	24	17,946	3,144	(3,587)	17,881
Research and development expenses			19,846	1,470	(2,313)	19,003
Restructuring and impairment charges			1,610	11		1,621
Operating income (loss)	(354)	(24)	20,712	1,287	(5)	21,616
Other income (expense)		(3,774)	(82,121)	10,062		(75,833)
Income (loss) before income taxes, equity in loss of related equity investment	(354)	(3,798)	(61,409)	11,349	(5)	(54,217)
Income tax expenses (benefits)	(1,456)		(661)	3,910		1,793
Income (loss) before equity in loss of related investment	1,102	(3,798)	(60,748)	7,439	(5)	(56,010)
Equity in loss of related investment	(57,112)	(53,031)		(60,753)	170,896	
Net loss	\$ (56,010)	\$ (56,829)	\$ (60,748)	\$ (53,314)	\$ 170,891	\$ (56,010)
Comprehensive income	\$ (30,190)	\$ (31,009)	\$ (35,889)	\$ (27,495)	\$ 94,393	\$ (30,190)

Table of Contents**MagnaChip Semiconductor Corporation and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****(Unaudited; tabular dollars in thousands, except share data)****Condensed Consolidating Statements of Comprehensive Income****For the nine months ended September 30, 2011**

	MagnaChip Semiconductor Corporation (Parent)	Co-Issuers	Non-Guarantors	Guarantors	Eliminations	Consolidated
Net sales	\$	\$	\$ 591,967	\$ 19,439	\$ (19,401)	\$ 592,005
Cost of sales			409,250	1,392	(1,414)	409,228
Gross profit			182,717	18,047	(17,987)	182,777
Selling, general and administrative expenses	1,650	610	49,740	9,731	(10,991)	50,740
Research and development expenses			60,538	4,561	(6,984)	58,115
Restructuring and impairment charges			2,409	1,687		4,096
IPO incentive			11,355	791		12,146
Operating income (loss)	(1,650)	(610)	58,675	1,277	(12)	57,680
Other income (expense)	1	28,262	(71,531)	(10,186)		(53,454)
Income (loss) before income taxes, equity in loss of related equity investment	(1,649)	27,652	(12,856)	(8,909)	(12)	4,226
Income tax expenses (benefits)	(1,474)		532	7,080		6,138
Income (loss) before equity in loss of related investment	(175)	27,652	(13,388)	(15,989)	(12)	(1,912)
Equity in loss of related investment	(1,737)	(29,153)		(13,400)	44,290	
Net loss	\$ (1,912)	\$ (1,501)	\$ (13,388)	\$ (29,389)	\$ 44,278	\$ (1,912)
Comprehensive income	\$ (5,639)	\$ (5,228)	\$ (17,926)	\$ (33,136)	\$ 56,290	\$ (5,639)

Table of Contents**MagnaChip Semiconductor Corporation and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****(Unaudited; tabular dollars in thousands, except share data)****Condensed Consolidating Statements of Cash Flows****For the nine months ended September 30, 2012**

	MagnaChip Semiconductor Corporation (Parent)	Co-Issuers	Non-Guarantors	Guarantors	Eliminations	Consolidated
Cash flow from operating activities						
Net income	\$ 68,015	\$ 54,604	\$ 61,256	\$ 52,873	\$ (168,733)	\$ 68,015
Adjustments to reconcile net income to net cash provided by (used in) operating activities						
Depreciation and amortization			23,704	136		23,840
Provision for severance benefits			16,740	39		16,779
Amortization of debt issuance costs and original issue discount		753				753
Loss (gain) on foreign currency translation, net	(158)	724	(25,380)	(490)		(25,304)
Loss (gain) on disposal of property, plant and equipment, net			(191)	17		(174)
Loss on disposal of intangible assets, net			26			26
Stock-based compensation	(95)		1,536	9		1,450
Equity in earnings of related investment	(54,817)	(52,661)		(61,255)	168,733	
Other		2	(340)	6		(332)
Changes in operating assets and liabilities						
Accounts receivable, net			(18,614)	(205)	651	(18,168)
Inventories, net			(8,526)			(8,526)
Other receivables	1	(24,483)	(549)	31	23,213	(1,787)
Other current assets	(19,667)	(38,313)	(729)	(29,003)	87,050	(662)
Deferred tax assets				1,514		1,514
Accounts payable			17,594	301	(423)	17,472
Other accounts payable	24,727	35	(52)	(1,875)	(23,535)	(700)
Accrued expenses	(325)	24,490	37,814	38,739	(86,957)	13,761
Other current liabilities	4,041		1,390	4,019		9,450
Payment of severance benefits			(5,569)			(5,569)
Other	(71)		3,587	(6,073)	318	(2,239)
Net cash provided by (used in) operating activities	21,651	(34,849)	103,697	(1,217)	317	89,599
Cash flows from investing activities						
Decrease in restricted cash			6,774			6,774
Proceeds from disposal of plant, property and equipment			937			937
Purchases of plant, property and equipment			(56,694)	(51)		(56,745)
Payment for intellectual property registration			(752)			(752)

Table of Contents**MagnaChip Semiconductor Corporation and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****(Unaudited; tabular dollars in thousands, except share data)**

	MagnaChip Semiconductor Corporation (Parent)	Co-Issuers	Non-Guarantors	Guarantors	Eliminations	Consolidated
Payment for purchase of Dawin, net of cash acquired			(8,642)			(8,642)
Decrease in short-term financial instruments			173			173
Collection of guarantee deposits			42	30		72
Payment of guarantee deposits			(309)	(2)		(311)
Other		21,983	(41)	21,373	(43,365)	(50)
Net cash provided by (used in) investing activities		21,983	(58,512)	21,350	(43,365)	(58,544)
Cash flow from financing activities						
Proceeds from issuance of common stock	436					436
Repayment of long-term intercompany borrowings			(21,746)	(21,983)	43,729	
Repayment of obligations under capital lease			(2,968)			(2,968)
Acquisition of treasury stock	(22,937)					(22,937)
Net cash used in financing activities	(22,501)		(24,714)	(21,983)	43,729	(25,469)
Effect of exchange rates on cash and cash equivalents			(1,668)	310	(681)	(2,039)
Net increase (decrease) in cash and cash equivalents	(850)	(12,866)	18,803	(1,540)		3,547
Cash and cash equivalents						
Beginning of the period	1,677	25,119	127,118	8,197		162,111
End of the period	\$ 827	\$ 12,253	\$ 145,921	\$ 6,657	\$	\$ 165,658

Table of Contents**MagnaChip Semiconductor Corporation and Subsidiaries****Notes to Consolidated Financial Statements (Continued)****(Unaudited; tabular dollars in thousands, except share data)****Condensed Consolidating Statements of Cash Flows****For the nine months ended September 30, 2011**

	MagnaChip Semiconductor Corporation (Parent)	Co-Issuers	Non-Guarantors	Guarantors	Eliminations	Consolidated
Cash flow from operating activities						
Net loss	\$ (1,912)	\$ (1,501)	\$ (13,388)	\$ (29,389)	\$ 44,278	\$ (1,912)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities						
Depreciation and amortization			42,161	207		42,368
Provision for severance benefits			12,959	178		13,137
Amortization of debt issuance costs		728				728
Loss (gain) on foreign currency translation, net		(3,696)	31,387	5,529		