

MAGNACHIP SEMICONDUCTOR LLC
Form 10-Q
September 03, 2010
[Table of Contents](#)

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 June 30, 2010

or

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

For the transition period from _____ to _____.

Commission File Number: 333-168516-09

MagnaChip Semiconductor LLC

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

26-1815025
(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 July 31, 2010, the registrant had 307,233,996 common units outstanding.

Table of Contents

MAGNACHIP SEMICONDUCTOR LLC AND SUBSIDIARIES

TABLE OF CONTENTS

	Page No.
<u>PART I FINANCIAL INFORMATION</u>	3
Item 1. <u>Interim Consolidated Financial Statements (Unaudited)</u>	3
<u>MagnaChip Semiconductor LLC and Subsidiaries Consolidated Balance Sheets as of June 30, 2010 and December 31, 2009 (Successor Company)</u>	3
<u>MagnaChip Semiconductor LLC and Subsidiaries Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2010 (Successor Company) and June 28, 2009 (Predecessor Company)</u>	4
<u>MagnaChip Semiconductor LLC and Subsidiaries Consolidated Statements of Changes in Unitholders' Equity for the Three and Six Months Ended June 30, 2010 (Successor Company) and June 28, 2009 (Predecessor Company)</u>	5
<u>MagnaChip Semiconductor LLC and Subsidiaries Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2010 (Successor Company) and June 28, 2009 (Predecessor Company)</u>	7
<u>MagnaChip Semiconductor LLC and Subsidiaries Notes to Consolidated Financial Statements</u>	8
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	33
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	60
Item 4. <u>Controls and Procedures</u>	60
<u>PART II OTHER INFORMATION</u>	62
Item 1A. <u>Risk Factors</u>	62
Item 6. <u>Exhibits</u>	75
<u>SIGNATURES</u>	76

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

	Successor	
	June 30, 2010	December 31, 2009
Assets		
Current assets		
Cash and cash equivalents	\$ 141,310	\$ 64,925
Accounts receivable, net	117,711	74,233
Inventories, net	59,972	63,407
Other receivables	3,702	3,433
Prepaid expenses	9,908	12,625
Other current assets	11,097	3,433
Total current assets	343,700	222,056
Property, plant and equipment, net	155,040	156,337
Intangible assets, net	34,837	50,158
Long-term prepaid expenses	10,883	10,542
Other non-current assets	21,491	14,238
Total assets	\$ 565,951	\$ 453,331
Liabilities and Unitholders Equity		
Current liabilities		
Accounts payable	\$ 69,379	\$ 59,705
Other accounts payable	22,546	7,190
Accrued expenses	31,906	22,114
Current portion of long-term borrowings		618
Other current liabilities	7,826	3,937
Total current liabilities	131,657	93,564
Long-term borrowings, net	246,746	61,132
Accrued severance benefits, net	76,394	72,409
Other non-current liabilities	9,234	10,536
Total liabilities	464,031	237,641
Commitments and contingencies		
Unitholders equity		
Common units, no par value, 375,000,000 units authorized, 307,233,996 and 307,083,996 units issued and outstanding at June 30, 2010 and December 31, 2009, respectively	55,453	55,135
Additional paid-in capital	39,224	168,700

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Accumulated deficit	(1,609)	(1,963)
Accumulated other comprehensive income (loss)	8,852	(6,182)
Total unitholders equity	101,920	215,690
Total liabilities and unitholders equity	\$ 565,951	\$ 453,331

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

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

	Successor		Predecessor	
	Three Months Ended	Six Months Ended	Three Months Ended	Six Months Ended
	June 30, 2010		June 28, 2009	
Net sales	\$ 194,700	\$ 374,185	\$ 139,693	\$ 241,152
Cost of sales	130,166	260,293	91,362	171,922
Gross profit	64,534	113,892	48,331	69,230
Selling, general and administrative expenses	15,964	33,872	18,353	33,636
Research and development expenses	20,543	41,074	16,242	33,228
Restructuring and impairment charges	267	603	385	439
Operating income from continuing operations	27,760	38,343	13,351	1,927
Other income (expenses)				
Interest expense, net	(6,557)	(8,606)	(12,837)	(27,491)
Foreign currency gain (loss), net	(48,273)	(26,657)	30,791	(9,420)
Reorganization items, net			(340)	(340)
Others	(950)	(1,002)		
	(55,780)	(36,265)	17,614	(37,251)
Income (loss) from continuing operations before income taxes	(28,020)	2,078	30,965	(35,324)
Income tax expenses	2,727	1,724	2,387	5,005
Income (loss) from continuing operations	(30,747)	354	28,578	(40,329)
Loss from discontinued operations, net of taxes			966	1,751
Net income (loss)	\$ (30,747)	\$ 354	\$ 27,612	\$ (42,080)
Dividends accrued on preferred units			2,948	6,317
Income (loss) from continuing operations attributable to common units	\$ (30,747)	\$ 354	\$ 25,630	\$ (46,646)
Net income (loss) attributable to common units	\$ (30,747)	\$ 354	\$ 24,664	\$ (48,397)
Earnings (loss) per common unit from continuing operations				
- Basic and diluted	\$ (0.10)	\$ 0.00	\$ 0.48	\$ (0.88)

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Loss per common unit from discontinued operations					
- Basic and diluted	\$	\$	\$	0.02	\$ 0.03
Earnings (loss) per common unit Basic and diluted	\$	(0.10)	\$	0.00	\$ 0.46
					\$ (0.91)
Weighted average number of units Basic		302,558,556		302,501,374	52,923,483
Weighted average number of units Diluted		302,558,556		312,480,377	52,923,483
					52,923,483

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

Table of Contents

MAGNACHIP SEMICONDUCTOR LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN UNITHOLDERS EQUITY

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

	Common Units		Additional Paid-In Capital	Retained Earnings (Accumulated deficit)	Accumulated Other Comprehensive Income (loss)	Total
	Units	Amount				
Three Months Ended June 30, 2010						
Balance at April 1, 2010 (Successor Company)	307,233,996	\$ 55,453	\$ 169,265	\$ 29,138	\$ (22,411)	\$ 231,445
Unit-based compensation			656			656
Distribution to unitholders			(130,697)			(130,697)
Comprehensive income:						
Net loss				(30,747)		(30,747)
Fair valuation of derivatives					(2,090)	(2,090)
Foreign currency translation adjustments					33,329	33,329
Unrealized gains on investments					24	24
Total comprehensive income						516
Balance at June 30, 2010	307,233,996	\$ 55,453	\$ 39,224	\$ (1,609)	\$ 8,852	\$ 101,920
Six Months Ended June 30, 2010						
Balance at January 1, 2010 (Successor Company)	307,083,996	\$ 55,135	\$ 168,700	\$ (1,963)	\$ (6,182)	\$ 215,690
Unit-based compensation	150,000	318	1,221			1,539
Distribution to unitholders			(130,697)			(130,697)
Comprehensive income:						
Net income				354		354
Fair valuation of derivatives					(3,524)	(3,524)
Foreign currency translation adjustments					18,422	18,422
Unrealized gains on investments					136	136
Total comprehensive income						15,388
Balance at June 30, 2010	307,233,996	\$ 55,453	\$ 39,224	\$ (1,609)	\$ 8,852	\$ 101,920

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

Table of Contents

MAGNACHIP SEMICONDUCTOR LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN UNITHOLDERS EQUITY

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

	Common Units		Additional Paid-In Capital	Retained Earnings (Accumulated deficit)	Accumulated Other Comprehensive Income (loss)	Total
	Units	Amount				
Three Months Ended June 28, 2009						
Balance at March 30, 2009	52,923,483	\$ 52,923	\$ 3,261	\$ (1,068,068)	\$ 176,814	\$ (835,070)
(Predecessor Company)						
Unit-based compensation			56			56
Dividends accrued on preferred units				(2,948)		(2,948)
Comprehensive income:						
Net income				27,612		27,612
Foreign currency translation adjustments					(21,778)	(21,778)
Unrealized gains on investments					464	464
Total comprehensive income						6,298
Balance at June 28, 2009	52,923,483	\$ 52,923	\$ 3,317	\$ (1,043,404)	\$ 155,500	\$ (831,664)
Six Months Ended June 28, 2009						
Balance at January 1, 2009	52,923,483	52,923	3,150	(995,007)	151,135	(787,799)
(Predecessor Company)						
Unit-based compensation			167			167
Dividends accrued on preferred units				(6,317)		(6,317)
Comprehensive loss:						
Net loss				(42,080)		(42,080)
Foreign currency translation adjustments					3,901	3,901
Unrealized gains on investments					464	464
Total comprehensive loss						(37,715)
Balance at June 28, 2009	52,923,483	\$ 52,923	\$ 3,317	\$ (1,043,404)	\$ 155,500	\$ (831,664)

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

Table of Contents**MAGNACHIP SEMICONDUCTOR LLC AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited; in thousands of US dollars)**

	Six Months Ended	
	Successor June 30, 2010	Predecessor June 28, 2009
Cash flows from operating activities		
Net income (loss)	\$ 354	\$ (42,080)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization	29,985	22,167
Provision for severance benefits	9,380	3,738
Amortization of debt issuance costs and original issue discount	449	499
Loss on foreign currency translation, net	29,975	9,758
Loss (gain) on disposal of property, plant and equipment, net	(9)	82
Loss on disposal of intangible assets, net	7	74
Restructuring and impairment charges	603	
Unit-based compensation	2,752	167
Cash used for reorganization items	1,475	
Noncash reorganization items		340
Other	740	1,077
Changes in operating assets and liabilities		
Accounts receivable	(45,243)	(13,972)
Inventories	1,342	7,899
Other receivables	119	343
Deferred tax assets	618	1,623
Accounts payable	7,542	8,520
Other accounts payable	11,330	(2,884)
Accrued expenses	7,841	25,542
Long term other payable	(1,531)	405
Other current assets	(92)	517
Other current liabilities	(1,172)	5,081
Payment of severance benefits	(2,760)	(3,207)
Other	(1,324)	(184)
Net cash provided by operating activities before reorganization items	52,381	25,505
Cash used for reorganization items	(1,475)	
Net cash provided by operating activities	50,906	25,505
Cash flows from investing activities		
Proceeds from disposal of plant, property and equipment	13	282
Proceeds from disposal of intangible assets		1
Purchase of plant, property and equipment	(20,509)	(2,082)
Payment for intellectual property registration	(245)	(155)
Increase in restricted cash		(17,524)
Decrease (increase) in short-term financial instruments	329	(324)
Decrease in guarantee deposits	999	608
Other	(778)	3

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Net cash used in investing activities	(20,191)	(19,191)
Cash flows from financing activities		
Proceeds from issuance of senior notes	246,685	
Debt issuance costs paid	(8,313)	
Repayment of long-term borrowings	(61,750)	
Distribution to unitholders	(130,697)	
Net cash provided by financing activities	45,925	
Effect of exchange rates on cash and cash equivalents	(255)	(914)
Net increase in cash and cash equivalents	76,385	5,400
Cash and cash equivalents		
Beginning of the period	64,925	4,037
End of the period	\$ 141,310	\$ 9,437
Supplemental cash flow information		
Cash paid for interest	\$ 3,333	\$ 2,958
Cash paid (refunded) for income taxes	\$ (270)	\$ 4,896

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

Table of Contents

MagnaChip Semiconductor LLC and Subsidiaries

Notes to Consolidated Financial Statements

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

1. General

The Company

MagnaChip Semiconductor LLC (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 six months ended June 30, 2010 are not necessarily indicative of the results to be expected for a full year or for any other periods.

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

Recent Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2010-06 (ASU 2010-06), which amends the disclosure requirements of ASC 820, *Fair Value Measurements and Disclosures*, (ASC 820) as of January 1, 2010. ASU 2010-06 requires new disclosures for any transfers of fair value into and out of Level 1 and 2 fair value measurements and separate presentation of purchases, sales, issuances and settlements within the reconciliation of Level 3 unobservable inputs. The Company previously adopted ASC 820 on January 1, 2008 and January 1, 2009 for financial assets and liabilities and for nonfinancial assets and liabilities, respectively. ASU 2010-06 is effective for annual and interim periods beginning after December 15, 2009, except for the Level 3 reconciliation which is effective for annual and interim periods beginning after December 15, 2010. The adoption of ASU 2010-06 as of January 1, 2010 did not have a material effect on the Company's financial condition or results of operations. The Company does not expect the adoption of ASU 2010-06 in relation to the Level 3 reconciliation to have a material impact on the Company's financial condition or results of operations.

In June 2009, the FASB issued ASC 810, *Consolidation*, (ASC 810), which (1) replaces the quantitative-based risks and rewards calculation for determining whether an enterprise is the primary beneficiary in a variable interest entity with an approach that is primarily qualitative, (2) requires ongoing assessments of whether an enterprise is the primary beneficiary of a variable interest entity and (3) requires additional disclosures about an enterprise's involvement in variable interest entities. The Company was required to adopt ASC 810 as of the beginning of 2010. The adoption of ASC 810 did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

Table of Contents**MagnaChip Semiconductor LLC and Subsidiaries****Notes to Consolidated Financial Statements - (Continued)****(Unaudited; tabular dollars in thousands, except unit data)****3. Voluntary Reorganization under Chapter 11**

On June 12, 2009, MagnaChip Semiconductor LLC (the Parent), MagnaChip Semiconductor B.V., MagnaChip Semiconductor S.A. and certain other subsidiaries of the Parent in the U.S. (the Debtors), filed a voluntary petition for relief in the U.S. Bankruptcy Court for the District of Delaware under Chapter 11 of the U.S. Bankruptcy Code. The court approved a plan of reorganization proposed by the Creditors Committee on September 25, 2009 (the Plan of Reorganization), and the Plan of Reorganization became effective and the Debtors emerged from Chapter 11 reorganization proceedings (the Reorganization Proceedings) on November 9, 2009 (the Reorganization Effective Date). On the Reorganization Effective Date, the Company implemented fresh-start reporting in accordance with Accounting Standards Codification (ASC) 852, *Reorganizations*, (ASC 852).

All conditions required for the adoption of fresh-start reporting were met upon emergence from the Reorganization Proceedings on the Reorganization Effective Date. The Company is permitted to select an accounting convenience date (the Fresh-Start Adoption Date) proximate to the emergence date for purposes of fresh-start reporting, provided that an analysis of the activity between the date of emergence and an accounting convenience date does not result in a material difference in the fresh-start reporting results. The Company evaluated transaction activity between October 25, 2009 and the Reorganization Effective Date and concluded an accounting convenience date of October 25, 2009 which was the Company's October accounting period end was appropriate.

As a result, the fair value of the Predecessor Company's assets became the new basis for the Successor Company's consolidated statement of financial position as of the Fresh-Start Adoption Date, and all operations beginning on or after October 26, 2009 are related to the Successor Company.

As a result of the application of fresh-start reporting in accordance with ASC 852, the financial statements prior to and including October 25, 2009 represent the operations of the Predecessor Company and are not comparable with the financial statements for periods on or after October 25, 2009. References to the Successor Company refer to the Company on or after October 25, 2009, after giving effect to the application of fresh-start reporting. References to the Predecessor Company refer to the Company prior to and including October 25, 2009.

4. Inventories

Inventories as of June 30, 2010 and December 31, 2009 consist of the following:

	Successor	
	June 30, 2010	December 31, 2009
Finished goods	\$ 8,338	\$ 19,474
Semi-finished goods and work-in-process	47,353	42,604
Raw materials	8,999	5,844
Materials in-transit	213	64
Less: inventory reserve	(4,931)	(4,579)
Inventories, net	\$ 59,972	\$ 63,407

Table of Contents**MagnaChip Semiconductor LLC and Subsidiaries****Notes to Consolidated Financial Statements - (Continued)****(Unaudited; tabular dollars in thousands, except unit data)****5. Property, Plant and Equipment**

Property, plant and equipment as of June 30, 2010 and December 31, 2009 comprise the following:

	June 30, 2010	Successor December 31, 2009
Buildings and related structures	\$ 69,533	\$ 72,076
Machinery and equipment	87,196	71,505
Vehicles and others	4,245	3,043
	160,974	146,624
Less: accumulated depreciation	(20,502)	(5,388)
Land	14,568	15,101
Property, plant and equipment, net	\$ 155,040	\$ 156,337

6. Intangible Assets

Intangible assets as of June 30, 2010 and December 31, 2009 are as follows:

	June 30, 2010	Successor December 31, 2009
Technology	\$ 17,499	\$ 14,942
Customer relationships	25,516	26,448
Intellectual property assets	4,867	4,779
In-process research and development	5,836	9,829
Less: accumulated amortization	(18,881)	(5,840)
Intangible assets, net	\$ 34,837	\$ 50,158

Table of Contents**MagnaChip Semiconductor LLC and Subsidiaries****Notes to Consolidated Financial Statements - (Continued)****(Unaudited; tabular dollars in thousands, except unit data)****7. Derivative Financial Instruments**

Effective January 11, 2010, the Company's Korean subsidiary entered into option and forward 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. Total notional amounts for the options and forward contracts were \$50 million and \$135 million, respectively, and monthly settlements for the contracts were and will be made from February to December 2010.

Effective May 25, 2010, the Company's Korean subsidiary entered into another option and forward 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. Total notional amounts for the options and forward contracts were \$30 million and \$78 million, respectively, and monthly settlements for the contracts will be made from January to June 2011.

The option and forward 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 option and forward contracts recorded as assets and liabilities are as follows:

Derivatives designated as hedging instruments under ASC 815:		June 30, 2010
Asset Derivatives:		
Options	Other current assets	\$ 205
Forwards	Other current assets	\$ 1,696
Liability Derivatives:		
Forwards	Other current liabilities	\$ 5,021

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.

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

The following table summarizes the impact of derivative instruments on the consolidated statement of operations for the three months ended June 30, 2010:

Derivatives in ASC 815 Cash Flow	Amount of Loss Recognized in AOCI on Derivatives (Effective Portion)	Location of Loss Reclassified from AOCI into Statements of Operations (Effective Portion)	Amount of Loss Reclassified from AOCI into Statements of Operations (Effective Portion)	Location of Loss	Amount of Loss Recognized in Statements of Operations on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)
				Recognized in Statements of Operations on Derivative	
Hedging Relationships				Effectiveness Testing)	
Options	\$ (622)	Net sales	\$ (167)	Other income (expenses) Others	\$ (28)
Forwards	(1,468)	Net sales	(1,092)	Other income (expenses) Others	(922)
Total	\$ (2,090)		\$ (1,259)		\$ (950)

The following table summarizes the impact of derivative instruments on the consolidated statement of operations for the six months June 30, 2010:

Derivatives in ASC 815 Cash Flow	Amount of Loss Recognized in AOCI on Derivatives (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI into Statements of Operations (Effective Portion)	Amount of Loss Reclassified from AOCI into Statements of Operations (Effective Portion)	Location of Loss	Amount of Loss Recognized in Statements of Operations on Derivatives (Ineffective Portion and Amount
Hedging Relationships				Recognized in Statements of Operations on	and Amount

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				Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Excluded from Effectiveness Testing)
Options	\$ (1,138)	Net sales	\$ (183)	Other income (expenses) Others	\$ (62)
Forwards	(2,386)	Net sales	(1,695)	Other income (expenses) Others	(945)
Total	\$ (3,524)		\$ (1,878)		\$ (1,007)

The Company's option and forward 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, the counterparty to the option and forward contracts, for any exposure in excess of \$5 million.

Table of Contents**MagnaChip Semiconductor LLC and Subsidiaries****Notes to Consolidated Financial Statements - (Continued)****(Unaudited; tabular dollars in thousands, except unit data)****8. Fair Value Measurements**

ASC 820 defines fair value, establishes a consistent framework for measuring fair value and expands disclosure requirements about fair value measurements. ASC 820 requires, among other things, the Company's valuation techniques used to measure fair value to maximize the use of observable inputs and minimize the use of unobservable inputs.

The valuation techniques required by ASC 820 are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect market assumptions made by the Company. These two types of inputs create the following fair value hierarchy:

Level 1 Unadjusted quoted prices for identical instruments in active markets.

Level 2 Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations for which inputs are observable or for which significant value drivers are observable.

Level 3 Significant inputs to the valuation model are unobservable.

The following table represents the Company's assets and liabilities measured at fair value on a recurring basis as of June 30, 2010 and the basis for that measurement:

	Carrying Value June 30, 2010	Fair Value Measurement June 30, 2010	Quoted Prices in Active Markets for Identical Asset (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:					
Current derivative assets	\$ 1,901	\$ 1,901	\$	\$ 1,901	\$
Available-for-sale securities	691	691	691		
Liabilities:					
Current derivative liabilities	5,021	5,021		5,021	

Table of Contents**MagnaChip Semiconductor LLC and Subsidiaries****Notes to Consolidated Financial Statements - (Continued)****(Unaudited; tabular dollars in thousands, except unit data)****9. Long-Term Borrowings**

Long-term borrowings as of June 30, 2010 and December 31, 2009 are as follows:

	June 30, 2010	Successor December 31, 2009
New term loan	\$	\$ 61,750
10.5% senior notes due April 2018	250,000	
Current portion of long-term borrowings		(618)
	250,000	61,132
Discount on 10.5% senior notes due April 2018	(3,254)	
Long-term borrowings, net of unamortized discount	\$ 246,746	\$ 61,132

New Term Loan

In connection with the Predecessor Company's reorganization in 2009, in complete satisfaction of the first lien lender claims arising from the senior secured credit facility (included in short-term borrowings) of \$95 million, the Company made a cash payment of \$33,250 thousand to the senior secured credit facility lenders and, together with its subsidiaries, including MagnaChip Semiconductor S.A. and MagnaChip Semiconductor Finance Company, as borrowers, entered into a \$61,750 thousand Amended and Restated Credit Agreement (the "Credit Agreement" or the "new term loan") with Avenue Investments, LP, Goldman Sachs Lending Partners LLC and Citicorp North America, Inc.

Long-term borrowings as of December 31, 2009 consisted of Eurodollar loans at an annual interest rate of 6 month LIBOR + 12% to Avenue Investments, LP, Goldman Sachs Lending Partners LLC and Citicorp North America, Inc. in the principal amount of \$42,055 thousand, \$12,285 thousand and \$7,410 thousand, respectively.

On April 9, 2010, the new term loan of \$61,596 thousand was fully repaid by the Company with the proceeds from issuance of new 10.5% senior notes. In connection with the repayment of the new term loan, \$210 thousand of relevant debt issuance costs were written off.

As of the early repayment date, the Company and all of its subsidiaries except for MagnaChip Semiconductor (Shanghai) Company Limited jointly and severally guaranteed, as a primary obligor, the payment and performance of the borrower's obligations under the Credit Agreement.

Table of Contents

MagnaChip Semiconductor LLC and Subsidiaries

Notes to Consolidated Financial Statements - (Continued)

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

10.5% Senior Notes

On April 9, 2010, two of the Company's wholly-owned subsidiaries, MagnaChip Semiconductor S.A. and MagnaChip Semiconductor Finance Company, issued \$250 million aggregate principal amount of 10.5% senior notes due April 15, 2018 at a price of 98.674%. Interest on the notes will accrue at a rate of 10.5% per annum, payable semi-annually on April 15 and October 15 of each year, beginning on October 15, 2010. \$250 million of principal amount will be paid in full at April 15, 2018. The obligations under the senior notes are fully and unconditionally guaranteed on an unsecured senior basis by the Company and all of its subsidiaries except for MagnaChip Semiconductor, Ltd. (Korea) and MagnaChip Semiconductor (Shanghai) Company Limited.

Of the \$238,372 thousand of net proceeds, which represents \$250 million of principal amount net of \$3,315 thousand of original issue discount and \$8,313 thousand of debt issuance costs, \$130,697 thousand was used to make a distribution to the Company's stockholders and \$61,596 thousand was used to repay all outstanding borrowings under the new term loan. The remaining proceeds of \$46,079 thousand were retained to fund working capital and for general corporate purposes.

The Company can optionally redeem all or a part of the notes according to the following schedule: (i) at any time prior to April 15, 2013, the Company may on any one or more occasions redeem up to 35% of the aggregate principal amount of notes issued under the indenture at a redemption price equal to 110.5% of the principal amount of the notes redeemed, plus accrued and unpaid interest and special interest, if any, to the date of redemption; (ii) at any time prior to April 15, 2014, the Company may on any one or more occasions redeem all or a part of the notes at a redemption price equal to 100% of the principal amount of the notes redeemed, plus the applicable premium as of, and accrued and unpaid interest and special interest, if any, to the date of redemption; and (iii) on or after April 15, 2014, the Company may on any one or more occasions redeem all or a part of the notes, at a redemption price equal to 105.25%, 102.625% and 100% of the principal amount of the notes redeemed in 2014, 2015 and 2016 and thereafter, respectively, plus accrued and unpaid interest and special interest, if any, on the notes redeemed, to the applicable date of redemption.

The indenture relating to the Company's \$250 million senior notes contains covenants that limit ability of the Parent, co-issuers and the restricted subsidiaries to: (i) declare or pay any dividend or make any payment or distribution on account of or purchase or redeem the Company's capital stock or equity interests of the restricted subsidiaries; (ii) make any principal payment on, or redeem or repurchase, prior to any scheduled repayment, sinking fund payment or maturity, any subordinated indebtedness; (iii) make certain investments, including capital expenditures; (iv) incur additional indebtedness and issue certain types of capital stock; (v) create or incur any lien (except for permitted liens) that secures obligations under any indebtedness or related guarantee; (vi) merge with or into or sell all or substantially all of the Company's assets to other companies; (vii) enter into certain types of transactions with affiliates; (viii) guarantee the payment of any indebtedness; (ix) enter into sale-leaseback transactions; (x) enter into agreements that would restrict the ability of the restricted subsidiaries to make distributions with respect to their equity, to make loans to the Parent, co-issuers or other restricted subsidiaries or to transfer assets to the Parent, co-issuers or other restricted subsidiaries; and (xi) designate unrestricted subsidiaries.

These covenants will be subject to a number of exceptions and qualifications. Certain of these restrictive covenants will terminate if the notes are rated investment grade at any time.

As of June 30, 2010, the Company is compliant with all of its covenant requirements.

Of the \$250 million aggregate principal amount, funds affiliated with Avenue Capital Management II, L.P. purchased \$35 million principal amount.

In connection with the issuance of the senior notes, the Company capitalized certain costs and fees, which are being amortized using the effective interest method over its respective term, 2010 to 2018. Amortization costs, which were included in interest expense in the accompanying statements of operations, amounted to \$153 thousand for the three and six months ended June 30, 2010. The remaining capitalized costs as of June 30, 2010 were \$8,160 thousand.

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

The majority of accrued severance benefits is for employees in the Company's Korean subsidiary, MagnaChip Semiconductor Ltd. (Korea). 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 June 30, 2010, 98.5% of all employees of the Company were eligible for severance benefits.

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

	Successor		Predecessor	
	Three Months Ended	Six Months Ended	Three Months Ended	Six Months Ended
	June 30, 2010	June 30, 2010	June 28, 2009	June 28, 2009
Beginning balance	\$ 78,106	\$ 73,646	\$ 58,546	\$ 63,147
Provisions	6,214	9,380	2,749	3,738
Severance payments	(1,668)	(2,760)	(1,521)	(3,207)
Translation adjustments	(5,114)	(2,728)	2,838	(1,066)
	77,538	77,538	62,612	62,612
Less: Cumulative contributions to the National Pension Fund	(476)	(476)	(496)	(496)
Group Severance insurance plan	(668)	(668)	(634)	(634)
Accrued severance benefits, net	\$ 76,394	\$ 76,394	\$ 61,482	\$ 61,482

The severance benefits are funded approximately 1.48% and 1.80% as of June 30, 2010 and June 28, 2009, 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 2010	\$ 32
2011	
2012	132
2013	
2014	275
2015	304
2016 - 2020	10,225

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 LLC and Subsidiaries****Notes to Consolidated Financial Statements - (Continued)****(Unaudited; tabular dollars in thousands, except unit data)****11. Redeemable Convertible Preferred Units*****Predecessor Company***

Changes in Series B units for each period are as follows:

	Three Months Ended		Six Months Ended	
	June 28, 2009		June 28, 2009	
	Units	Amount	Units	Amount
Beginning of period	93,997	\$ 146,038	93,997	\$ 142,669
Accrual of preferred dividends		2,948		6,317
End of period	93,997	\$ 148,986	93,997	\$ 148,986

The Series B units were retired without consideration as part of the Company's reorganization in 2009.

12. Discontinued Operations

On October 6, 2008, the Company announced the closure of its Imaging Solutions business segment. As of December 31, 2008, Imaging Solutions business segment qualified as a discontinued operation component of the Company under ASC 360, *Property, Plant and Equipment*, (ASC 360). As a result, the results of operations of the Imaging Solutions business segment were classified as discontinued operations.

The results of operations of the Company's discontinued Imaging Solutions business consist of the following:

	Predecessor	
	Three Months Ended	Six Months Ended
	June 28, 2009	
Net sales	\$ 1,341	\$ 2,254
Cost of sales	2,071	3,377
Selling, general and administrative expenses	236	628
Loss from discontinued operations, net of taxes	\$ 966	\$ 1,751

Table of Contents

MagnaChip Semiconductor LLC and Subsidiaries

Notes to Consolidated Financial Statements - (Continued)

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

13. Restructuring and Impairment Charges

Successor Company

2010 Restructuring and Impairment Charges

The Company recognized \$267 and \$603 thousand of impairment charge for the three and six months ended June 30, 2010, respectively, for the two and four abandoned IPR&D projects which were recorded as a result of its adoption of fresh-start reporting as of October 25, 2009.

Predecessor Company

2009 Restructuring and Impairment Charges

On March 31, 2009, the Company announced the closure of the Tokyo office of its subsidiary, MagnaChip Semiconductor Inc. (Japan). In connection with this closure, the Company recognized \$385 thousand and \$439 thousand of restructuring charges, which consisted of one-time termination benefits and other related costs under ASC 420, *Exit or Disposal Cost Obligations*, (ASC 420), for the three and six months ended June 28, 2009. There was no remaining accrual as of June 28, 2009.

14. Uncertainty in Income Taxes

The Company's subsidiaries file income tax returns in Korea, Japan, Taiwan, the U.S. and in various other jurisdictions. The Company is subject to income tax examinations by tax authorities of these jurisdictions for the applicable statute of limitations since the beginning of its operation as an independent company in October 2004.

As of June 30, 2010 and December 31, 2009, the Company recorded \$867 thousand and \$1,997 thousand of liabilities for unrecognized tax benefits, respectively. For the six months ended June 30, 2010, the Company reversed \$1,640 thousand of liabilities due to the lapse of the applicable statute of limitations.

The Company recognizes interest and penalties accrued related to unrecognized tax benefits as income tax expenses. The Company recognized \$88 thousand and \$64 thousand of interest and penalties as income tax expenses for the three and six months ended June 30, 2010, respectively. And it also recognized \$55 thousand and \$147 thousand of interest and penalties as income tax expenses for the three and six months ended June 28, 2009, respectively. Total interest and penalties accrued as of June 30, 2010 and December 31, 2009 were \$194 thousand and \$946 thousand, respectively.

Table of Contents**MagnaChip Semiconductor LLC and Subsidiaries****Notes to Consolidated Financial Statements - (Continued)****(Unaudited; tabular dollars in thousands, except unit data)****15. Geographic and Segment Information**

The following sets forth information relating to the reportable segments:

	Three Months Ended	
	Successor June 30, 2010	Predecessor June 28, 2009
Net Sales		
Display Solutions	\$ 80,584	\$ 74,187
Semiconductor Manufacturing Services	101,564	62,963
Power Solutions	12,040	1,685
All other	512	858
Total segment net sales	\$ 194,700	\$ 139,693
Gross Profit		
Display Solutions	\$ 22,122	\$ 22,435
Semiconductor Manufacturing Services	39,452	25,816
Power Solutions	2,448	(778)
All other	512	858
Total segment gross profit	\$ 64,534	\$ 48,331

	Six Months Ended	
	Successor June 30, 2010	Predecessor June 28, 2009
Net Sales		
Display Solutions	\$ 157,314	\$ 133,807
Semiconductor Manufacturing Services	194,765	103,100
Power Solutions	21,074	2,618
All other	1,032	1,627
Total segment net sales	\$ 374,185	\$ 241,152
Gross Profit		
Display Solutions	\$ 36,553	\$ 36,109
Semiconductor Manufacturing Services	72,296	31,993
Power Solutions	4,011	(499)
All other	1,032	1,627
Total segment gross profit	\$ 113,892	\$ 69,230

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

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

	Three Months Ended	
	Successor June 30, 2010	Predecessor June 28, 2009
Korea	\$ 101,310	\$ 74,909
Asia Pacific	52,687	43,529
Japan	12,796	9,254
North America	23,686	11,126
Europe	4,003	875
Africa	218	
Total	\$ 194,700	\$ 139,693

	Six Months Ended	
	Successor June 30, 2010	Predecessor June 28, 2009
Korea	\$ 198,970	\$ 134,607
Asia Pacific	101,161	65,288
Japan	22,991	16,769
North America	44,066	19,708
Europe	6,779	4,780
Africa	218	
Total	\$ 374,185	\$ 241,152

Net sales from the Company's top ten largest customers accounted for 64.3% and 68.4% for the three months ended June 30, 2010 and June 28, 2009, respectively, and 64.2% and 70.1% for the six months ended June 30, 2010 and June 28, 2009, respectively.

The Company recorded \$35,315 thousand and \$40,178 thousand of sales to one customer within its Display Solutions segment, which represents greater than 10% of net sales, for the three months ended June 30, 2010 and June 28, 2009, respectively, and \$70,893 thousand and \$73,962 thousand for the six months ended June 30, 2010 and June 28, 2009, respectively.

Over 99% of the Company's property, plant and equipment are located in Korea as of June 30, 2010.

Table of Contents**MagnaChip Semiconductor LLC and Subsidiaries****Notes to Consolidated Financial Statements - (Continued)****(Unaudited; tabular dollars in thousands, except unit data)****16. Commitments and Contingencies**

Samsung Fiber Optics has made a claim against the Company for the infringement of the certain patent rights of Caltech in relation to imaging sensor products provided by the Company to Samsung Fiber Optics. The Company believes it is probable that the pending claim will have an unfavorable outcome and further believes the associated loss can be reasonably estimated according to ASC 450 *Contingencies* (ASC 450). The Company recorded \$718 thousand of estimated liabilities as of June 30, 2010 and December 31, 2009 in accrued expenses in the accompanying balance sheets, as the Company believes its accrual is its best estimate if the final outcome is unfavorable. Estimation was based on the most recent communication with Samsung Fiber Optics. Accordingly, the Company cannot provide assurance that the estimated liabilities will be realized, and actual results could vary materially.

17. Earnings (loss) per Unit

The following table illustrates the computation of basic and diluted earnings (loss) per common unit:

	Three Months Ended	
	Successor June 30, 2010	Predecessor June 28, 2009
Income (loss) from continuing operations	\$ (30,747)	\$ 28,578
Loss from discontinued operations, net of taxes		(966)
Net income (loss)	(30,747)	27,612
Dividends accrued on preferred unitholders		(2,948)
Income (loss) from continuing operations attributable to common units	\$ (30,747)	\$ 25,630
Net income (loss) attributable to common units	\$ (30,747)	\$ 24,664
Weighted average common units outstanding-basic and diluted	302,558,556	52,923,483
Basic and diluted earnings (loss) per unit from continuing operations	\$ (0.10)	\$ 0.48
Basic and diluted loss per unit from discontinued operations	\$	\$ (0.02)
Basic and diluted net earnings (loss) per unit	\$ (0.10)	\$ 0.46

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

	Six Months Ended	
	Successor June 30, 2010	Predecessor June 28, 2009
Income (loss) from continuing operations	\$ 354	\$ (40,329)
Loss from discontinued operations, net of taxes		(1,751)
Net income (loss)	354	(42,080)
Dividends accrued on preferred unitholders		(6,317)
Income (loss) from continuing operations attributable to common units	\$ 354	\$ (46,646)
Net income (loss) attributable to common units	\$ 354	\$ (48,397)
Weighted average common units outstanding-basic	302,501,374	52,923,483
Weighted average common units outstanding-diluted	312,480,377	52,923,483
Basic and diluted earnings (loss) per unit from continuing operations	\$ 0.00	\$ (0.88)
Basic and diluted earnings (loss) per unit from discontinued operations	\$	\$ (0.03)
Basic and diluted net earnings (loss) per unit	\$ 0.00	\$ (0.91)

The following outstanding unit options and warrants were excluded from the computation of diluted earnings (loss) per unit of Successor Company, as they would have an anti-dilutive effect on the calculation. The following outstanding redeemable convertible preferred units and unit options were excluded from the computation of diluted earnings (loss) per unit of Predecessor Company as they were out of money position considering the Reorganization Proceedings of Predecessor Company:

	Six Months Ended	
	Successor June 30, 2010	Predecessor June 28, 2009
Redeemable convertible preferred units		93,997
Options	914,000	3,882,506
Warrants	15,000,000	

Table of Contents

MagnaChip Semiconductor LLC and Subsidiaries

Notes to Consolidated Financial Statements - (Continued)

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

18. Subsequent Events

The Company has evaluated subsequent events requiring recognition or disclosure in the consolidated financial statements during the period from July 1, 2010 through September 3, 2010, the date the unaudited interim consolidated financial statements were available to be issued.

A. Form S-4 Filing in Connection With the 10.5% Senior Notes

On August 4, 2010, the Company filed a registration statement on Form S-4 that set forth the terms and conditions under which the Company offered to exchange up to \$250 million aggregate principal amount of 10.5% Senior Notes due 2018, which will be registered under the Securities Act (the new notes), for an equal principal amount of the Company's outstanding unregistered 10.5% Senior Notes due 2018, which the Company issued on April 9, 2010 (the old notes). The terms of the new notes are substantially identical to the terms of the old notes (including principal amount, interest rate, maturity and redemption rights), except that the new notes will be registered under the Securities Act and will bear a separate CUSIP number, and the transfer restrictions, registration rights and related special interest terms applicable to the old notes will not apply to the new notes. The new notes will evidence the same indebtedness as the old notes which they will replace, and both the old notes and the new notes are governed by the same indenture.

B. Cash Flow Hedge Transactions

Effective August 12, 2010, the Company's Korean subsidiary entered into 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. Total notional amounts for the zero cost collar contracts were \$108 million and monthly settlements for the contracts will be made from July to December 2011. Under the Company's hedge strategy utilizing these zero cost collar contracts, appreciation of the Korean won against the U.S. dollar beyond 1,100:1 and depreciation of Korean won against U.S. dollar below 1,348:1 were designated as the risk being hedged.

C. Capital Lease Agreement

On August 31, 2010, the Company's Korean subsidiary (the lessee) entered into a capital lease agreement with MMT First Company Limited for the use of semiconductor equipment. The lease term is two years, and the total amount of lease payments to be paid on a quarterly basis over the lease term is \$11,437 thousand. The lease was categorized as a capital lease because the lease provides that the ownership of the equipment transfers to the lessee upon expiration of the lease term.

Table of Contents

MagnaChip Semiconductor LLC and Subsidiaries

Notes to Consolidated Financial Statements - (Continued)

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

19. Condensed Consolidating Financial Information

The \$250 million senior notes are fully and unconditionally, jointly and severally guaranteed by the Company and all of its subsidiaries, except for MagnaChip Semiconductor, Ltd. (Korea) and MagnaChip Semiconductor (Shanghai) Company Limited.

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 June 30, 2010 and December 31, 2009, condensed consolidating statements of operations for the three months and six months ended June 30, 2010 and June 28, 2009 and condensed consolidating statement of cash flows for the six months ended June 30, 2010 and June 28, 2009 of those entities that guarantee the senior notes, those that do not, MagnaChip Semiconductor LLC, 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 LLC and Subsidiaries****Notes to Consolidated Financial Statements - (Continued)****(Unaudited; tabular dollars in thousands, except unit data)****Condensed Consolidating Balance Sheet****June 30, 2010****(Successor Company)**

	MagnaChip Semiconductor LLC (Parent)					Co-Issuers	Non-Guarantors	Guarantors	Eliminations	Consolidated		
Assets												
Current assets												
Cash and cash equivalents	\$	73	\$	46,596	\$	82,448	\$	12,193	\$	141,310		
Accounts receivable, net						155,751		55,483	(93,523)	117,711		
Inventories, net						59,956		174	(158)	59,972		
Other receivables		710		718		19,786		2,774	(20,286)	3,702		
Prepaid expenses		37		5		12,658		105	(2,897)	9,908		
Short-term intercompany loan				95,000				95,000	(190,000)			
Other current assets		5,509		102,276		3,479		97,524	(197,691)	11,097		
Total current assets		6,329		244,595		334,078		263,253	(504,555)	343,700		
Property, plant and equipment, net						154,683		357		155,040		
Intangible assets, net						34,223		614		34,837		
Long-term prepaid expenses						21,480			(10,597)	10,883		
Investment in subsidiaries		(594,889)		(667,901)				(520,778)	1,783,568			
Long-term intercompany loan		697,125		778,693				621,000	(2,096,818)			
Other non-current assets				8,160		5,987		7,344		21,491		
Total Assets	\$	108,565	\$	363,547	\$	550,451	\$	371,790	\$	(828,402)	\$	565,951
Liabilities and Unitholders Equity												
Current liabilities												
Accounts payable	\$		\$		\$	123,934	\$	38,913	\$	(93,468)	\$	69,379
Other accounts payable		6,545		7,730		23,145		5,412	(20,286)	22,546		
Accrued expenses		100		5,985		119,304		104,263	(197,746)	31,906		
Short-term intercompany borrowings						95,000		95,000	(190,000)			
Other current liabilities						6,913		3,810	(2,897)	7,826		
Total current liabilities		6,645		13,715		368,296		247,398	(504,397)	131,657		
Long-term borrowings				943,871		621,000		778,693	(2,096,818)	246,746		
Accrued severance benefits, net						75,173		1,221		76,394		
Other non-current liabilities						6,707		13,124	(10,597)	9,234		

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Total liabilities	6,645	957,586	1,071,176	1,040,436	(2,611,812)	464,031
Commitments and contingencies						
Unitholders' equity						
Common units	55,453	136,229	39,005	51,976	(227,210)	55,453
Additional paid-in capital	39,224	(735,016)	(538,379)	(733,394)	2,006,789	39,224
Retained earnings (accumulated deficit)	(1,609)	(4,104)	(29,773)	3,938	29,939	(1,609)
Accumulated other comprehensive income	8,852	8,852	8,422	8,834	(26,108)	8,852
Total unitholders' equity	101,920	(594,039)	(520,725)	(668,646)	1,783,410	101,920
Total liabilities and unitholders' equity	\$ 108,565	\$ 363,547	\$ 550,451	\$ 371,790	\$ (828,402)	\$ 565,951

Table of Contents**MagnaChip Semiconductor LLC and Subsidiaries****Notes to Consolidated Financial Statements - (Continued)****(Unaudited; tabular dollars in thousands, except unit data)****Condensed Consolidating Balance Sheet****December 31, 2009****(Successor Company)**

	MagnaChip Semiconductor LLC (Parent)					Co-Issuers	Non-Guarantors	Guarantors	Eliminations	Consolidated		
Assets												
Current assets												
Cash and cash equivalents	\$	136	\$	24	\$	45,443	\$	19,322	\$	64,925		
Accounts receivable, net						122,500		66,872	(115,139)	74,233		
Inventories, net						59,914		4,098	(605)	63,407		
Other receivables		710		718		7,061		3,617	(8,673)	3,433		
Prepaid expenses		165		85		14,122		1,150	(2,897)	12,625		
Short-term intercompany loan				95,000				95,000	(190,000)			
Other current assets		16		72,614		776		72,868	(142,841)	3,433		
Total current assets		1,027		168,441		249,816		262,927	(460,155)	222,056		
Property, plant and equipment, net						155,951		386		156,337		
Intangible assets, net						49,459		699		50,158		
Long-term prepaid expenses						22,576			(12,034)	10,542		
Investment in subsidiaries		(608,843)		(690,259)				(517,520)	1,816,622			
Long-term intercompany loan		824,091		806,355				621,000	(2,251,446)			
Other non-current assets				234		5,753		8,251		14,238		
Total Assets	\$	216,275	\$	284,771	\$	483,555	\$	375,743	\$	(907,013)	\$	453,331
Liabilities and Unitholders Equity												
Current liabilities												
Accounts payable	\$		\$		\$	106,792	\$	67,975	\$	(115,062)	\$	59,705
Other accounts payable		485		5,551		6,337		3,490	(8,673)	7,190		
Accrued expenses		100		1,134		89,045		74,753	(142,918)	22,114		
Short-term intercompany borrowings						95,000		95,000	(190,000)			
Current portion of long-term debt				618						618		
Other current liabilities						2,935		3,899	(2,897)	3,937		
Total current liabilities		585		7,303		300,109		245,117	(459,550)	93,564		
Long-term borrowings				885,224		621,000		806,354	(2,251,446)	61,132		
Accrued severance benefits, net						71,362		1,047		72,409		

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Other non-current liabilities			8,550	14,020	(12,034)	10,536
Total liabilities	585	892,527	1,001,021	1,066,538	(2,723,030)	237,641
Commitments and contingencies						
Unitholders' equity						
Common units	55,135	136,229	39,005	51,976	(227,210)	55,135
Additional paid-in capital	168,700	(735,940)	(539,175)	(734,525)	2,009,640	168,700
Accumulated deficit	(1,963)	(1,871)	(11,636)	(2,056)	15,563	(1,963)
Accumulated other comprehensive income	(6,182)	(6,174)	(5,660)	(6,190)	18,024	(6,182)
Total unitholders' equity	215,690	(607,756)	(517,466)	(690,795)	1,816,017	215,690
Total liabilities and unitholders' equity	\$ 216,275	\$ 284,771	\$ 483,555	\$ 375,743	\$ (907,013)	\$ 453,331

Table of Contents**MagnaChip Semiconductor LLC and Subsidiaries****Notes to Consolidated Financial Statements - (Continued)****(Unaudited; tabular dollars in thousands, except unit data)****Condensed Consolidating Statement of Operations****For the three months ended June 30, 2010****(Successor Company)**

	MagnaChip Semiconductor LLC					
	(Parent)	Co-Issuers	Non-Guarantors	Guarantors	Eliminations	Consolidated
Net sales	\$	\$	\$ 194,845	\$ 6,923	\$ (7,068)	\$ 194,700
Cost of sales			130,178	1,224	(1,236)	130,166
Gross profit			64,667	5,699	(5,832)	64,534
Selling, general and administrative expenses	615	389	15,591	2,167	(2,798)	15,964
Research and development expenses			21,457	2,112	(3,026)	20,543
Restructuring and impairment charges			267			267
Operating income (loss)	(615)	(389)	27,352	1,420	(8)	27,760
Other income (expense)	3,734	(9,540)	(64,123)	14,149		(55,780)
Income (loss) before income taxes, equity in loss of related equity investment	3,119	(9,929)	(36,771)	15,569	(8)	(28,020)
Income tax expenses			12	2,715		2,727
Income (loss) before equity in loss of related investment	3,119	(9,929)	(36,783)	12,854	(8)	(30,747)
Loss of related investment	(33,866)	(24,098)		(36,791)	94,755	
Net loss	\$ (30,747)	\$ (34,027)	\$ (36,783)	\$ (23,937)	\$ 94,747	\$ (30,747)
Net loss attributable to common units	\$ (30,747)	\$ (34,027)	\$ (36,783)	\$ (23,937)	\$ 94,747	\$ (30,747)

Table of Contents**MagnaChip Semiconductor LLC and Subsidiaries****Notes to Consolidated Financial Statements - (Continued)****(Unaudited; tabular dollars in thousands, except unit data)****Condensed Consolidating Statement of Operations****For the six months ended June 30, 2010****(Successor Company)**

	MagnaChip Semiconductor LLC					
	(Parent)	Co-Issuers	Non-Guarantors	Guarantors	Eliminations	Consolidated
Net sales	\$	\$	\$ 369,659	\$ 18,605	\$ (14,079)	\$ 374,185
Cost of sales			256,682	6,917	(3,306)	260,293
Gross profit			112,977	11,688	(10,773)	113,892
Selling, general and administrative expenses	1,178	525	32,855	4,754	(5,440)	33,872
Research and development expenses			42,857	4,282	(6,065)	41,074
Restructuring and impairment charges			603			603
Operating income (loss)	(1,178)	(525)	36,662	2,652	732	38,343
Other income (expense)	3,734	(8,117)	(56,746)	24,864		(36,265)
Income (loss) before income taxes, equity in earnings (loss) of related equity investment	2,556	(8,642)	(20,084)	27,516	732	2,078
Income tax expenses (benefits)			(1,947)	3,671		1,724
Income (loss) before equity in earnings (loss) of related investment	2,556	(8,642)	(18,137)	23,845	732	354
Earnings (loss) of related investment	(2,202)	6,409		(17,851)	13,644	
Net income (loss)	\$ 354	\$ (2,233)	\$ (18,137)	\$ 5,994	\$ 14,376	\$ 354
Net income (loss) attributable to common units	\$ 354	\$ (2,233)	\$ (18,137)	\$ 5,994	\$ 14,376	\$ 354

Table of Contents**MagnaChip Semiconductor LLC and Subsidiaries****Notes to Consolidated Financial Statements - (Continued)****(Unaudited; tabular dollars in thousands, except unit data)****Condensed Consolidating Statement of Operations****For the three months ended June 28, 2009****(Predecessor Company)**

	MagnaChip Semiconductor LLC (Parent)					Co-Issuers	Non-Guarantors	Guarantors	Eliminations	Consolidated
	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Net sales			137,819	51,317	(49,443)		139,693			
Cost of sales			91,940	44,216	(44,794)		91,362			
Gross profit			45,879	7,101	(4,649)		48,331			
Selling, general and administrative expenses	2,178	(10)	14,693	3,204	(1,712)		18,353			
Research and development expenses			15,771	2,404	(1,933)		16,242			
Restructuring and impairment charges				385			385			
Operating income (loss)	(2,178)	10	15,415	1,108	(1,004)		13,351			
Other income (expense)		8,757	14,057	(5,200)			17,614			
Income (loss) before income taxes, equity in earnings of related equity investment	(2,178)	8,767	29,472	(4,092)	(1,004)		30,965			
Income tax expenses (benefits)			26	2,361			2,387			
Income (loss) before equity in earnings of related investment	(2,178)	8,767	29,446	(6,453)	(1,004)		28,578			
Earnings of related investment	29,790	20,751		28,132	(78,673)					
Income from continuing operations	27,612	29,518	29,446	21,679	(79,677)		28,578			
Income (loss) from discontinued operation, net of tax			(1,107)	271	(130)		(966)			
Net income	\$ 27,612	\$ 29,518	\$ 28,339	\$ 21,950	\$ (79,807)		\$ 27,612			
Dividends accrued on preferred units		2,948					2,948			
	\$ 24,664	\$ 29,518	\$ 29,446	\$ 21,679	\$ (79,677)		\$ 25,630			

Income from continuing operations
attributable to common units

Net income attributable to common units	\$	24,664	\$	29,518	\$	28,339	\$	21,950	\$	(79,807)	\$	24,664
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Table of Contents**MagnaChip Semiconductor LLC and Subsidiaries****Notes to Consolidated Financial Statements - (Continued)****(Unaudited; tabular dollars in thousands, except unit data)****Condensed Consolidating Statement of Operations****For the six months ended June 28, 2009****(Predecessor Company)**

	MagnaChip Semiconductor LLC (Parent)	Co-Issuers	Non-Guarantors	Guarantors	Eliminations	Consolidated
Net sales	\$	\$	\$ 233,645	\$ 91,708	\$ (84,201)	\$ 241,152
Cost of sales			171,059	76,146	(75,283)	171,922
Gross profit			62,586	15,562	(8,918)	69,230
Selling, general and administrative expenses	2,661	41	26,702	6,610	(2,378)	33,636
Research and development expenses			33,338	5,909	(6,019)	33,228
Restructuring and impairment charges				439		439
Operating income (loss)	(2,661)	(41)	2,546	2,604	(521)	1,927
Other income (expense)		2,485	(43,029)	3,293		(37,251)
Income (loss) before income taxes, equity in loss of related equity investment	(2,661)	2,444	(40,483)	5,897	(521)	(35,324)
Income tax expenses			52	4,953		5,005
Income (loss) before equity in loss of related investment	(2,661)	2,444	(40,535)	944	(521)	(40,329)
Loss of related investment	(39,419)	(42,091)		(42,258)	123,768	
Loss from continuing operation	(42,080)	(39,647)	(40,535)	(41,314)	123,247	(40,329)
Income (loss) from discontinued operation, net of taxes			(1,616)	45	(180)	(1,751)
Net loss	\$ (42,080)	\$ (39,647)	\$ (42,151)	\$ (41,269)	\$ 123,067	\$ (42,080)
Dividends accrued on preferred units	6,317					6,317
	\$ (48,397)	\$ (39,647)	\$ (40,535)	\$ (41,314)	\$ 123,247	\$ (46,646)

Loss from continuing operations attributable to common units

Net loss attributable to common units	\$	(48,397)	\$	(39,647)	\$	(42,151)	\$	(41,269)	\$	123,067	\$	(48,397)
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Table of Contents**MagnaChip Semiconductor LLC and Subsidiaries****Notes to Consolidated Financial Statements - (Continued)****(Unaudited; tabular dollars in thousands, except unit data)****Condensed Consolidating Statement of Cash Flows****For the six months ended June 30, 2010****(Successor Company)**

	MagnaChip Semiconductor LLC (Parent)					Co-Issuers	Non-Guarantors	Guarantors	Eliminations	Consolidated		
Cash flow from operating activities												
Net income (loss)	\$	354	\$	(2,233)	\$	(18,137)	\$	5,994	\$	14,376	\$	354
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities												
Depreciation and amortization						29,846		139				29,985
Provision for severance benefits						9,225		155				9,380
Amortization of debt issuance costs				449								449
Loss (gain) on foreign currency translation, net				27,659		29,510		(27,194)				29,975
Gain on disposal of property, plant and equipment, net						(9)						(9)
Loss on disposal of intangible assets, net						7						7
Restructuring and impairment charges						603						603
Unit-based compensation		407				2,010		335				2,752
Cash used for reorganization items						51		1,424				1,475
Loss (earnings) of related investment		2,202		(6,409)				17,851		(13,644)		
Other		13		(11)		757		(19)				740
Changes in operating assets and liabilities												
Accounts receivable, net						(35,220)		11,593		(21,616)		(45,243)
Inventories, net						(2,189)		4,290		(759)		1,342
Other receivables						(12,339)		845		11,613		119
Deferred tax assets								618				618
Accounts payable								15,050		(29,102)		7,542
Other accounts payable		5,510		2,181		13,022		2,230		(11,613)		11,330
Accrued expenses				4,851		28,509		29,443		(54,962)		7,841
Long term other payable								72		(1,603)		(1,531)
Other current assets		(4,805)		(29,584)		3,737		(24,144)		54,704		(92)
Other current liabilities						(1,043)		(129)				(1,172)
Payment of severance benefits						(2,731)		(29)				(2,760)
Other						467		(1,791)				(1,324)
Net cash provided by (used in) operating activities before reorganization items		3,681		(3,097)		61,126		(7,419)		(1,910)		52,381

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Cash used for reorganization items			(51)	(1,424)		(1,475)
Net cash provided by (used in) operating activities	3,681	(3,097)	61,075	(8,843)	(1,910)	50,906
Cash flows from investing activities						
Proceeds from disposal of plant, property and equipment			13			13
Purchases of plant, property and equipment			(20,505)	(4)		(20,509)
Payment for intellectual property registration			(245)			(245)
Decrease in short-term financial instruments				329		329
Decrease in guarantee deposits			219	780		999
Collection of long-term intercompany loans	126,953				(126,953)	
Other			(693)	(85)		(778)
Net cash provided by (used in) investing activities	126,953		(21,211)	1,020	(126,953)	(20,191)
Cash flow from financing activities						
Proceeds from issuance of senior notes		246,685				246,685
Debt issuance costs paid		(8,313)				(8,313)
Repayment of long-term borrowings		(188,703)			126,953	(61,750)
Distribution to unitholders	(130,697)					(130,697)
Net cash provided by (used in) financing activities	(130,697)	49,669			126,953	45,925
Effect of exchanges rate on cash and cash equivalents			(2,859)	694	1,910	(255)
Net increase (decrease) in cash and cash equivalents	(63)	46,572	37,005	(7,129)		76,385
Cash and cash equivalents						
Beginning of the period	136	24	45,443	19,322		64,925
End of the period	\$ 73	\$ 46,596	\$ 82,448	\$ 12,193	\$	\$ 141,310

Table of Contents**MagnaChip Semiconductor LLC and Subsidiaries****Notes to Consolidated Financial Statements - (Continued)****(Unaudited; tabular dollars in thousands, except unit data)****Condensed Consolidating Statement of Cash Flows****For the six months ended June 28, 2009****(Predecessor Company)**

	MagnaChip Semiconductor LLC					
	(Parent)	Co-Issuers	Non-Guarantors	Guarantors	Eliminations	Consolidated
Cash flow from operating activities						
Net loss	\$ (42,080)	\$ (39,647)	\$ (42,151)	\$ (41,269)	\$ 123,067	\$ (42,080)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities						
Depreciation and amortization			20,966	1,201		22,167
Provision for severance benefits			3,594	144		3,738
Amortization of debt issuance costs		412	87			499
Loss (gain) on foreign currency translation, net		(901)	10,898	(239)		9,758
Loss (gain) on disposal of property, plant and equipment			(244)	326		82
Loss on disposal of intangible assets, net			74			74
Unit-based compensation			150	17		167
Noncash reorganization items			59	281		340
Loss of related investment	39,419	42,091		42,258	(123,768)	
Other			451	564	62	1,077
Changes in operating assets and liabilities						
Accounts receivable, net			(25,986)	(14,745)	26,759	(13,972)
Inventories, net			8,404	(1,190)	685	7,899
Other receivables			(47)	3,332	(2,942)	343
Deferred tax assets				1,624	(1)	1,623
Accounts payable			18,446	16,833	(26,759)	8,520
Other accounts payable	2,766		(8,827)	235	2,942	(2,884)
Accrued expenses	(81)	23,638	27,031	25,334	(50,380)	25,542
Long term other payable			35	405	(35)	405
Other current assets	(240)	(25,521)	4,135	(25,548)	47,691	517
Other current liabilities		(95)	6,125	(3,646)	2,697	5,081
Payment of severance benefits			(2,928)	(279)		(3,207)
Other			266	1,669	(2,119)	(184)
Net cash provided by (used in) operating activities	(216)	(23)	20,538	7,307	(2,101)	25,505
Cash flows from investing activities						
			247	297	(262)	282

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Proceeds from disposal of plant, property and equipment					
Proceeds from disposal of intangible assets			1		1
Purchases of plant, property and equipment	(2,322)		(10)	250	(2,082)
Purchase of intangibles, net	(155)				(155)
Increase in restricted cash	(17,524)				(17,524)
Increase in short-term financial instruments			(324)		(324)
Decrease in guarantee deposits	545		63		608
Other	(49)		1,815	(1,763)	3
Net cash provided by (used in) investing activities	(19,258)		1,842	(1,775)	(19,191)
Cash flow from financing activities					
Repayment of long-term borrowings			(1,763)	1,763	
Net cash used in financing activities			(1,763)	1,763	
Effect of exchanges rate on cash and cash equivalents			503	(3,530)	2,113
Net increase (decrease) in cash and cash equivalents	(216)	(23)	1,783	3,856	5,400
Cash and cash equivalents					
Beginning of the period	216	56	205	3,560	4,037