

MagnaChip Semiconductor, Inc. (California)
Form 424B3
November 08, 2010
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PROSPECTUS SUPPLEMENT No. 1

(TO PROSPECTUS DATED OCTOBER 15, 2010)

Filed pursuant to

Rule 424(b)(3) under the

Securities Act of 1933 in

connection with Registration

Statement No. 333-168790

MagnaChip Semiconductor S.A.

MagnaChip Semiconductor Finance Company

10.500% Senior Notes due 2018 and related Guarantees

This Prospectus Supplement No. 1 supplements and amends the prospectus dated October 15, 2010 relating to the resales by certain holders of up to \$35,000,000 in principal amount of the 10.500% Senior Notes due 2018 and related guarantees originally issued by MagnaChip Semiconductor S.A. and MagnaChip Semiconductor Finance Company on April 9, 2010, which may be offered from time to time by the selling noteholders on the terms and as described in the prospectus.

This prospectus supplement should be read in conjunction with the prospectus dated October 15, 2010, which is to be delivered with this prospectus supplement. This prospectus supplement is not complete without, and may not be delivered or utilized except in connection with, the prospectus, including any amendments or supplements to it.

On November 4, 2010, we filed our Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2010. That Form 10-Q, without exhibits, is attached hereto.

We will not receive any proceeds from the resale of the notes hereunder. The selling noteholders may offer some or all of the notes through public or private transactions, at market prices prevailing at the time of the sale, at prices related to those prevailing prices, at negotiated prices or at fixed prices. We are contractually obligated to pay all registration expenses, with certain limitations, incurred in connection with this offering.

See Risk Factors beginning on page 20 in the prospectus dated October 15, 2010, as well as the section entitled Risk Factors included in our Form 10-Q for the quarterly period ended September 30, 2010 attached hereto, for a discussion of risks that should be considered before buying the notes offered hereunder.

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Neither the Securities and Exchange Commission nor any state securities commission nor any other regulatory body has approved or disapproved of these securities or determined if this prospectus supplement or the prospectus to which it relates are truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus supplement is November 8, 2010.

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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, 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)

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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 October 31, 2010, the registrant had 307,215,516 common units outstanding.

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MAGNACHIP SEMICONDUCTOR LLC AND SUBSIDIARIES

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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)**

	September 30, 2010	Successor December 31, 2009
Assets		
Current assets		
Cash and cash equivalents	\$ 161,429	\$ 64,925
Accounts receivable, net	136,945	74,233
Inventories, net	65,029	63,407
Other receivables	4,476	3,433
Prepaid expenses	10,375	12,625
Other current assets	17,327	3,433
Total current assets	395,581	222,056
Property, plant and equipment, net	175,393	156,337
Intangible assets, net	31,500	50,158
Long-term prepaid expenses	9,685	10,542
Other non-current assets	22,135	14,238
Total assets	\$ 634,294	\$ 453,331
Liabilities and Unitholders Equity		
Current liabilities		
Accounts payable	\$ 71,958	\$ 59,705
Other accounts payable	12,987	7,190
Accrued expenses	48,012	22,114
Current portion of long-term borrowings		618
Current portion of capital lease obligations	5,222	
Other current liabilities	5,235	3,937
Total current liabilities	143,414	93,564
Long-term borrowings, net	246,814	61,132
Long-term obligations under capital lease	4,270	
Accrued severance benefits, net	84,943	72,409
Other non-current liabilities	7,748	10,536
Total liabilities	487,189	237,641
Commitments and contingencies		
Unitholders equity		

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Common units, no par value, 375,000,000 units authorized, 307,215,516 and 307,083,996 units issued and outstanding at September 30, 2010 and December 31, 2009, respectively	55,453	55,135
Additional paid-in capital	39,887	168,700
Retained earnings (accumulated deficit)	59,886	(1,963)
Accumulated other comprehensive loss	(8,121)	(6,182)
Total unitholders' equity	147,105	215,690
Total liabilities and unitholders' equity	\$ 634,294	\$ 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 September 30, 2010	Nine Months Ended September 30, 2010	Three Months Ended September 27, 2009	Nine Months Ended September 27, 2009
Net sales	\$ 209,448	\$ 583,633	\$ 156,627	\$ 397,779
Cost of sales	140,133	400,426	104,465	276,387
Gross profit	69,315	183,207	52,162	121,392
Selling, general and administrative expenses	16,202	50,074	17,175	50,811
Research and development expenses	23,119	64,193	17,704	50,932
Restructuring and impairment charges	442	1,045		439
Operating income from continuing operations	29,552	67,895	17,283	19,210
Other income (expenses)				
Interest expense, net	(7,312)	(15,918)	(2,642)	(30,133)
Foreign currency gain, net	41,400	14,743	45,449	36,029
Reorganization items, net			(4,135)	(4,475)
Others	312	(690)		
	34,400	(1,865)	38,672	1,421
Income from continuing operations before income taxes	63,952	66,030	55,955	20,631
Income tax expenses	2,457	4,181	2,434	7,439
Income from continuing operations	61,495	61,849	53,521	13,192
Income from discontinued operations, net of taxes			8,916	7,165
Net income	\$ 61,495	\$ 61,849	\$ 62,437	\$ 20,357
Dividends accrued on preferred units				6,317
Income from continuing operations attributable to common units	\$ 61,495	\$ 61,849	\$ 53,521	\$ 6,875
Net income attributable to common units	\$ 61,495	\$ 61,849	\$ 62,437	\$ 14,040
Earnings per common unit from continuing operations				
- Basic and diluted	\$ 0.20	\$ 0.20	\$ 1.01	\$ 0.13
Earnings per common unit from discontinued operation				
- Basic and diluted	\$	\$	\$ 0.17	\$ 0.14

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Earnings per common unit Basic and diluted	\$	0.20	\$	0.20	\$	1.18	\$	0.27
Weighted average number of units Basic		302,558,556		302,520,644		52,923,483		52,923,483
Weighted average number of units Diluted		313,604,679		312,905,596		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 September 30, 2010						
Balance at July 1, 2010 (Successor Company)	307,233,996	\$ 55,453	\$ 39,224	\$ (1,609)	\$ 8,852	\$ 101,920
Forfeiture of restricted units	(18,480)					
Unit-based compensation			663			663
Comprehensive income:						
Net Income				61,495		61,495
Fair valuation of derivatives					8,207	8,207
Reclassification to net income from accumulated other comprehensive loss related to hedge derivatives					2,374	2,374
Foreign currency translation adjustments					(27,478)	(27,478)
Unrealized loss on investments					(76)	(76)
Total comprehensive income						44,522
Balance at September 30, 2010	307,215,516	\$ 55,453	\$ 39,887	\$ 59,886	\$ (8,121)	\$ 147,105
Nine Months Ended September 30, 2010						
Balance at January 1, 2010 (Successor Company)	307,083,996	\$ 55,135	\$ 168,700	\$ (1,963)	\$ (6,182)	\$ 215,690
Forfeiture of restricted units	(18,480)					
Unit-based compensation	150,000	318	1,884			2,202
Distribution to unitholders			(130,697)			(130,697)
Comprehensive income:						
Net income				61,849		61,849
Fair valuation of derivatives					2,805	2,805
Reclassification to net income from accumulated other comprehensive loss related to hedge derivatives					4,252	4,252
Foreign currency translation adjustments					(9,056)	(9,056)
Unrealized gains on investments					60	60
Total comprehensive income						59,910
Balance at September 30, 2010	307,215,516	\$ 55,453	\$ 39,887	\$ 59,886	\$ (8,121)	\$ 147,105

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

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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 September 27, 2009						
Balance at June 29, 2009 (Predecessor Company)	52,923,483	\$ 52,923	\$ 3,317	\$ (1,043,404)	\$ 155,500	\$ (831,664)
Unit-based compensation			52			52
Comprehensive income:						
Net income				62,437		62,437
Foreign currency translation adjustments					(29,559)	(29,559)
Unrealized loss on investments					(40)	(40)
Total comprehensive income						32,838
Balance at September 27, 2009	52,923,483	\$ 52,923	\$ 3,369	\$ (980,967)	\$ 125,901	\$ (798,774)
Nine Months Ended September 27, 2009						
Balance at January 1, 2009 (Predecessor Company)	52,923,483	52,923	3,150	(995,007)	151,135	(787,799)
Unit-based compensation			219			219
Dividends accrued on preferred units				(6,317)		(6,317)
Comprehensive loss:						
Net income				20,357		20,357
Foreign currency translation adjustments					(25,658)	(25,658)
Unrealized gains on investments					424	424
Total comprehensive loss						(4,877)
Balance at September 27, 2009	52,923,483	\$ 52,923	\$ 3,369	\$ (980,967)	\$ 125,901	\$ (798,774)

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)

	Nine Months Ended	
	Successor September 30, 2010	Predecessor September 27, 2009
Cash flows from operating activities		
Net income	\$ 61,849	\$ 20,357
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	44,332	34,608
Provision for severance benefits	15,123	7,831
Amortization of debt issuance costs and original issue discount	687	756
Gain on foreign currency translation, net	(16,704)	(36,182)
Loss (gain) on disposal of property, plant and equipment, net	(7)	84
Loss (gain) on disposal of intangible assets, net	9	(9,139)
Restructuring and impairment charges	1,045	
Unit-based compensation	4,072	219
Cash used for reorganization items	1,573	2
Noncash reorganization items		4,473
Other	951	1,997
Changes in operating assets and liabilities		
Accounts receivable	(61,771)	(17,961)
Inventories	193	(1,878)
Other receivables	(1,229)	(455)
Deferred tax assets	1,133	1,874
Accounts payable	10,400	6,686
Other accounts payable	6,332	(11,534)
Accrued expenses	22,094	27,550
Long term other payable	(1,606)	454
Other current assets	(221)	4,873
Other current liabilities	516	60
Payment of severance benefits	(4,707)	(4,085)
Other	(864)	(476)
Net cash provided by operating activities before reorganization items	83,200	30,114
Cash used for reorganization items	(1,573)	(2)
Net cash provided by operating activities	81,627	30,112
Cash flows from investing activities		
Proceeds from disposal of plant, property and equipment	10	299
Proceeds from disposal of intangible assets		9,283
Purchase of plant, property and equipment	(29,739)	(7,270)
Payment for intellectual property registration	(437)	(317)
Increase in restricted cash		(34,067)
Decrease (increase) in short-term financial instruments	329	(326)
Decrease in guarantee deposits	1,011	632
Other	(807)	(25)

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Net cash used in investing activities	(29,633)	(31,791)
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)	
Repayment of obligations under capital lease	(1,812)	
Distribution to unitholders	(130,697)	
Net cash provided by financing activities	44,113	
Effect of exchange rates on cash and cash equivalents	397	3,047
Net increase in cash and cash equivalents	96,504	1,368
Cash and cash equivalents		
Beginning of the period	64,925	4,037
End of the period	\$ 161,429	\$ 5,405
Supplemental cash flow information		
Cash paid for interest	\$ 3,499	\$ 4,622
Cash paid (refunded) for income taxes	\$ (290)	\$ 7,359
Noncash investing and financing activities		
Assets acquired under capital lease obligations	\$ 10,673	\$

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

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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 nine months ended September 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 US GAAP.

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 that 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 September 30, 2010 and December 31, 2009 consist of the following:

	September 30, 2010	Successor December 31, 2009
Finished goods	\$ 12,557	\$ 19,474
Semi-finished goods and work-in-process	49,993	42,604
Raw materials	9,379	5,844
Materials in-transit	893	64
Less: inventory reserve	(7,793)	(4,579)
Inventories, net	\$ 65,029	\$ 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 September 30, 2010 and December 31, 2009 comprise the following:

	September 30, 2010	Successor December 31, 2009
Buildings and related structures	\$ 73,692	\$ 72,076
Machinery and equipment	100,844	71,505
Vehicles and others	5,611	3,043
Equipment under capital lease	11,270	
	191,417	146,624
Less: accumulated depreciation	(31,264)	(5,388)
accumulated depreciation on equipment under capital lease	(199)	
Land	15,439	15,101
Property, plant and equipment, net	\$ 175,393	\$ 156,337

6. Intangible Assets

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

	September 30, 2010	Successor December 31, 2009
Technology	\$ 19,108	\$ 14,942
Customer relationships	27,042	26,448
Intellectual property assets	5,319	4,779
In-process research and development	5,171	9,829
Less: accumulated amortization	(25,140)	(5,840)
Intangible assets, net	\$ 31,500	\$ 50,158

As part of its application of fresh-start reporting, the Company recognized in-process research and development (IPR&D) of \$9,700 thousand. The Company accounted for IPR&D as an indefinite-lived intangible asset until completion or abandonment of the associated research and development (R&D) projects. If a project is completed, the carrying amount of the related intangible asset is amortized over the remaining estimated life of the asset beginning in the period in which the project is completed and sales of related product commenced.

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MagnaChip Semiconductor LLC and Subsidiaries

Notes to Consolidated Financial Statements - (Continued)

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

IPR&D assets are reviewed at least annually for impairment or more frequently if changes in circumstances indicate the asset may be impaired. If a project becomes impaired or abandoned, the carrying amount of the related intangible asset would be written down to its fair value and an impairment charge would be taken in the period in which the impairment occurs. The Company performed its annual impairment test as of September 30, 2010. The impairment test consists of a comparison of the fair value of the IPR&D with its carrying amount. The excess earnings method was applied as a valuation method that establishes the business value based on a stream of future economic benefits, such as net cash flows, discounted to their present value. This calculation is highly sensitive to both the estimated future cash flows from each R&D project and the discount rate assumed in these calculations. These components are discussed below:

Estimated future cash flows

The key variables that the Company must estimate to determine future cash flows include assumptions for sales volume, selling prices, raw material costs, labor and other employee benefit costs, capital additions and other economic or market-related factors. Significant management judgment is involved in estimating these variables, and they include inherent uncertainties since they are forecasting future events. For example, unanticipated changes in competition, customer sourcing requirements and product maturity would all have a significant impact on these estimates.

Discount rate

The Company employs a Weighted Average Cost of Capital (WACC) approach to determine the Company's discount rate for IPR&D impairment testing. The Company's WACC calculation includes factors such as the risk free rate of return, cost of debt and expected equity premiums. The factors in this calculation are largely external to the Company, and therefore are beyond the Company's control.

When the carrying amount of any IPR&D project exceeds its estimated fair value on a project by project basis, an impairment charge must be recognized in an amount equal to that excess. Accordingly, the Company recorded an impairment charges for \$391 thousand in the third quarter of 2010. Additional impairment charges of \$51 thousand were recognized for one abandoned IPR&D in the third quarter of 2010. The Company recognized \$1,045 thousand of impairment charges for the nine months ended September 30, 2010, which consists of \$391 thousand from IPR&D annual impairment test and \$654 thousand from five abandoned IPR&D projects.

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.

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.

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 option, forward and zero cost collar contracts recorded as assets and liabilities as of September 30, 2010 are as follows:

Derivatives designated as hedging instruments under ASC 815:		September 30, 2010
Asset Derivatives:		
Options	Other current assets	\$ 6,156
Forwards	Other current assets	\$ 187
Zero cost collars	Other current assets	\$ 552
Zero cost collars	Other non current assets	\$ 561
Liability Derivatives:		
Forwards	Other current liabilities	\$ 528

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 September 30, 2010:

Derivatives in ASC 815 Cash Flow	Amount of Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion)	Location of Loss Reclassified from AOCI into Statement of Operations (Effective Portion)	Amount of Loss Reclassified from AOCI into Statement of Operations (Effective Portion)	Location of Gain Recognized in Statement of Operations on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)		Amount of Gain Recognized in Statement of Operations on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)
				Amount	Amount	
Hedging Relationships				Other income (expenses)	Others	
Options	\$ (24)	Net sales	\$ (230)			\$
Forwards	7,108	Net sales	(2,144)			281
Zero cost collars	1,123	Net sales				31
Total	\$ 8,207		\$ (2,374)			\$ 312

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

Derivatives in ASC 815 Cash Flow Hedging Relationships	Amount of Gain (Loss)	Location of Loss	Amount of Loss Reclassified	Location of	Amount of Gain (Loss) Recognized in Statement of
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	Recognized in AOCI on Derivatives (Effective Portion)	Reclassified from AOCI into Statement of Operations (Effective Portion)	from AOCI into Statement of Operations (Effective Portion)	Gain (Loss) Recognized in Statement of Operations on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Operations on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)
Options	\$ (1,345)	Net sales	\$ (413)	Other income (expenses) Others	\$ (62)
Forwards	3,027	Net sales	(3,839)	Other income (expenses) Others	(663)
Zero cost collars	1,123	Net sales		Other income (expenses) Others	31
Total	\$ 2,805		\$ (4,252)		\$ (694)

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, the counterparty to the option, forward and zero cost collar 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 September 30, 2010 and the basis for that measurement:

	Carrying Value September 30, 2010	Fair Value Measurement September 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	\$ 6,895	\$ 6,895	\$	\$ 6,895	\$
Non current derivative assets	561	561		561	
Available-for-sale securities	652	652	652		
Liabilities:					
Current derivative liabilities	528	528		528	

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 September 30, 2010 and December 31, 2009 are as follows:

	September 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	(3,186)	
Long-term borrowings, net of unamortized discount	\$ 246,814	\$ 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 plus 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.

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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 accrues 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 due 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 unitholders 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 are 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 September 30, 2010, the Company is compliant with all of its covenant requirements in the indenture governing the senior notes.

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

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accompanying statements of operations, amounted to \$170 and \$323 thousand for the three and nine months ended September 30, 2010. The remaining capitalized costs as of September 30, 2010 were \$7,990 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 September 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 September 30, 2010	Nine Months Ended September 30, 2010	Three Months Ended September 27, 2009	Nine Months Ended September 27, 2009
Beginning balance	\$ 77,538	\$ 73,646	\$ 62,612	\$ 63,147
Provisions	5,743	15,123	4,094	7,831
Severance payments	(1,947)	(4,707)	(877)	(4,085)
Translation adjustments	4,802	2,074	4,836	3,772
	86,136	86,136	70,665	70,665
Less: Cumulative contributions to the National Pension Fund	(487)	(487)	(529)	(529)
Group Severance insurance plan	(706)	(706)	(675)	(675)
Accrued severance benefits, net	\$ 84,943	\$ 84,943	\$ 69,461	\$ 69,461

The severance benefits are funded approximately 1.39% and 1.70% as of September 30, 2010 and September 27, 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	\$ 34
2011	
2012	148
2013	
2014	300
2015	338
2016 - 2020	11,379

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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		Nine Months Ended	
	September 27, 2009		September 27, 2009	
	Units	Amount	Units	Amount
Beginning of period	93,997	\$ 148,986	93,997	\$ 142,669
Accrual of preferred dividends				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	Nine Months Ended
	September 27, 2009	
Net sales	\$ 299	\$ 2,553
Cost of sales	70	3,447
Selling, general and administrative expenses	(7,578)	(6,950)
Restructuring and impairment charges	(1,109)	(1,109)
Income from discontinued operations, net of taxes	\$ 8,916	\$ 7,165

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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 \$442 thousand of impairment charges for the three months ended September 30, 2010, which consists of \$391 thousand from IPR&D annual impairment test performed on September 30, 2010 and \$51 thousand from one abandoned IPR&D project. The Company recognized \$1,045 thousand of impairment charges for the nine months ended September 30, 2010, which consists of \$391 thousand from IPR&D annual impairment test and \$654 thousand from five abandoned IPR&D projects.

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 \$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 nine months ended September 27, 2009. There was no remaining accrual as of September 27, 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 September 30, 2010 and December 31, 2009, the Company recorded \$891 thousand and \$1,997 thousand of liabilities for unrecognized tax benefits, respectively. For the nine months ended September 30, 2010, the Company reversed \$1,640 thousand of liabilities due to the lapse of the applicable statute of limitations and recorded this gain as reduction of income tax expenses in the accompanying statement of operations.

The Company recognizes interest and penalties accrued related to unrecognized tax benefits as income tax expenses. The Company recognized \$4 thousand and \$68 thousand of interest and penalties as income tax expenses for the three and nine months ended September 30, 2010, respectively. And the Company also recognized \$47 thousand and \$194 thousand of interest and penalties as income tax expenses for the three and nine months ended September 27, 2009, respectively. Total interest and penalties accrued as of September 30, 2010 and December 31, 2009 were \$198 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 September 30, 2010	Predecessor September 27, 2009
Net Sales		
Display Solutions	\$ 77,989	\$ 75,588
Semiconductor Manufacturing Services	113,171	76,354
Power Solutions	17,801	3,812
All other	487	873
Total segment net sales	\$ 209,448	\$ 156,627
Gross Profit		
Display Solutions	\$ 22,732	\$ 20,740
Semiconductor Manufacturing Services	44,396	28,975
Power Solutions	1,700	1,574
All other	487	873
Total segment gross profit	\$ 69,315	\$ 52,162

	Nine Months Ended	
	Successor September 30, 2010	Predecessor September 27, 2009
Net Sales		
Display Solutions	\$ 235,303	\$ 209,395
Semiconductor Manufacturing Services	307,936	179,454
Power Solutions	38,875	6,430
All other	1,519	2,500
Total segment net sales	\$ 583,633	\$ 397,779
Gross Profit		
Display Solutions	\$ 59,285	\$ 56,849
Semiconductor Manufacturing Services	116,692	60,968
Power Solutions	5,711	1,075
All other	1,519	2,500

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Total segment gross profit	\$ 183,207	\$ 121,392
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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)**

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

	Three Months Ended	
	Successor September 30, 2010	Predecessor September 27, 2009
Korea	\$ 98,614	\$ 83,494
Asia Pacific	62,279	40,359
Japan	18,885	11,363
North America	24,719	19,637
Europe	4,040	1,774
Africa	911	
Total	\$ 209,448	\$ 156,627

	Nine Months Ended	
	Successor September 30, 2010	Predecessor September 27, 2009
Korea	\$ 297,584	\$ 218,101
Asia Pacific	163,440	105,647
Japan	41,876	28,132
North America	68,785	39,345
Europe	10,819	6,554
Africa	1,129	
Total	\$ 583,633	\$ 397,779

Net sales from the Company's top ten largest customers accounted for 62.9% and 67.8% for the three months ended September 30, 2010 and September 27, 2009, respectively, and 63.8% and 69.2% for the nine months ended September 30, 2010 and September 27, 2009, respectively.

The Company recorded \$28,976 thousand and \$36,951 thousand of sales to one customer within its Display Solutions segment, which represents greater than 10% of net sales, for the three months ended September 30, 2010 and September 27, 2009, respectively, and \$99,869 thousand and \$110,913 thousand for the nine months ended September 30, 2010 and September 27, 2009, respectively.

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

On August 31, 2010, the Company's Korean subsidiary (the lessee) entered into a lease agreement with MMT First Company Limited (the lessor) for the use of semiconductor equipment. The lease term is two years, and the ownership of the equipment will be transferred to the lessee upon expiration of the lease term and therefore the lease agreement is accounted for as a capital lease. Future minimum payments under the capital lease as of September 30, 2010 were as follows:

Payable during	Capital Lease
Remainder of 2010	\$ 1,489
2011	5,954
2012	2,977
Total future minimum lease payments	10,420
Less: Amount representing interest (a)	(928)
Present value of net minimum lease payments	9,492
Less: Current portion of capital lease obligations	(5,222)
Long-term obligations under capital lease	\$ 4,270

(a) The lessor's implicit rate at lease inception was applied.

Samsung Fiber Optics has made a claim against the Company for the infringement of 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 September 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.

Table of Contents**MagnaChip Semiconductor LLC and Subsidiaries****Notes to Consolidated Financial Statements - (Continued)****(Unaudited; tabular dollars in thousands, except unit data)****17. Earnings per Unit**

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

	Three Months Ended	
	Successor September 30, 2010	Predecessor September 27, 2009
Income from continuing operations	\$ 61,495	\$ 53,521
Income from discontinued operations, net of taxes		8,916
Net income	61,495	62,437
Income from continuing operations attributable to common units	\$ 61,495	\$ 53,521
Net income attributable to common units	\$ 61,495	\$ 62,437
Weighted average common units outstanding-basic	302,558,556	52,923,483
Weighted average common units outstanding-diluted	313,604,679	52,923,483
Basic and diluted earnings per unit from continuing operations	\$ 0.20	\$ 1.01
Basic and diluted earnings per unit from discontinued operations	\$	\$ 0.17
Basic and diluted earnings per unit	\$ 0.20	\$ 1.18

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

	Nine Months Ended	
	Successor September 30, 2010	Predecessor September 27, 2009
Income from continuing operations	\$ 61,849	\$ 13,192
Income from discontinued operations, net of taxes		7,165
Net income	61,849	20,357
Dividends accrued on preferred unitholders		(6,317)
Income from continuing operations attributable to common units	\$ 61,849	\$ 6,875
Net income attributable to common units	\$ 61,849	\$ 14,040
Weighted average common units outstanding-basic	302,520,644	52,923,483
Weighted average common units outstanding-diluted	312,905,596	52,923,483
Basic and diluted earnings per unit from continuing operations	\$ 0.20	\$ 0.13
Basic and diluted earnings per unit from discontinued operations	\$	\$ 0.14
Basic and diluted earnings per unit	\$ 0.20	\$ 0.27

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

	Three and Nine Months Ended	
	Successor September 30, 2010	Predecessor September 27, 2009
Redeemable convertible preferred units		93,997
Options	914,000	3,826,788
Warrants	15,000,000	

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MagnaChip Semiconductor LLC and Subsidiaries

Notes to Consolidated Financial Statements - (Continued)

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

18. Subsequent Events

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 \$215 million aggregate principal amount of 10.5% Senior Notes due 2018, which have been registered under the Securities Act (the new notes), for an equal principal amount of 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 are 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. The Form S-4 (as amended) went effective, and the exchange began, on October 15, 2010.

On August 4, 2010, the Company filed a registration statement on Form S-1 under which the Company registered for resale up to \$35 million aggregate principal amount of 10.5% Senior Notes due 2018 owned by funds affiliated with Avenue Capital Management II, L.P. The Form S-1 (as amended) went effective on October 15, 2010.

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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 September 30, 2010 and December 31, 2009, condensed consolidating statements of operations for the three months and nine months ended September 30, 2010 and September 27, 2009 and condensed consolidating statement of cash flows for the nine months ended September 30, 2010 and September 27, 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****September 30, 2010****(Successor Company)**

	MagnaChip Semiconductor LLC (Parent)					Co-Issuers	Non-Guarantors	Guarantors	Eliminations	Consolidated		
Assets												
Current assets												
Cash and cash equivalents	\$	69	\$	46,576	\$	106,152	\$	8,632	\$	161,429		
Accounts receivable, net						177,051		58,955	(99,061)	136,945		
Inventories, net						65,017		170	(158)	65,029		
Other receivables		710		718		19,648		3,063	(19,663)	4,476		
Prepaid expenses		87		3		13,085		97	(2,897)	10,375		
Short-term intercompany loan				95,000				95,000	(190,000)			
Other current assets		6,712		120,151		8,396		111,531	(229,463)	17,327		
Total current assets		7,578		262,448		389,349		277,448	(541,242)	395,581		
Property, plant and equipment, net												
Intangible assets, net						175,013		380		175,393		
Long-term prepaid expenses						30,927		573		31,500		
Investment in subsidiaries		(549,639)		(651,906)		19,551			(9,866)	9,685		
Long-term intercompany loan		697,125		797,160				(484,023)	1,685,568			
Other non-current assets				7,989		6,861		7,285	(2,115,285)	22,135		
Total Assets	\$	155,064	\$	415,691	\$	621,701	\$	422,663	\$	(980,825)	\$	634,294
Liabilities and Unitholders Equity												
Current liabilities												
Accounts payable	\$		\$		\$	130,401	\$	40,564	\$	(99,007)	\$	71,958
Other accounts payable		7,848		8,066		14,392		2,344	(19,663)		12,987	
Accrued expenses		111		12,711		142,509		122,198	(229,517)		48,012	
Short-term intercompany borrowings						95,000		95,000	(190,000)			
Current portion of capital lease obligations						5,222					5,222	
Other current liabilities						3,962		4,170	(2,897)		5,235	
Total current liabilities		7,959		20,777		391,486		264,276	(541,084)		143,414	
Long-term borrowings												
Long-term obligations under capital lease				943,939		621,000		797,160	(2,115,285)		246,814	
Accrued severance benefits, net						4,270					4,270	
						83,727		1,216			84,943	

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Other non-current liabilities		(1)	5,181	12,434	(9,866)	7,748
Total liabilities	7,959	964,715	1,105,664	1,075,086	(2,666,235)	487,189
Commitments and contingencies						
Unitholders' equity						
Common units	55,453	136,229	39,005	51,976	(227,210)	55,453
Additional paid-in capital	39,887	(734,543)	(537,976)	(732,808)	2,005,327	39,887
Retained earnings	59,886	57,410	25,488	36,553	(119,451)	59,886
Accumulated other comprehensive income	(8,121)	(8,120)	(10,480)	(8,144)	26,744	(8,121)
Total unitholders' equity	147,105	(549,024)	(483,963)	(652,423)	1,685,410	147,105
Total liabilities and unitholders' equity	\$ 155,064	\$ 415,691	\$ 621,701	\$ 422,663	\$ (980,825)	\$ 634,294

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
Other non-current liabilities			8,550	14,020	(12,034)	