

MAGNACHIP SEMICONDUCTOR Corp  
Form 10-Q  
May 03, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended March 31, 2011

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number: 001-34791

**MagnaChip Semiconductor Corporation**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

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

**c/o MagnaChip Semiconductor S.A.**

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

**Luxembourg R.C.S.**

**Luxembourg B97483**

**(352) 45-62-62**

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

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

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

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

As of March 31, 2011, the registrant had 39,356,749 shares of common stock outstanding.

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**MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES**

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FORWARD LOOKING STATEMENTS

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

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

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

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

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

	<b>March 31, 2011</b>	<b>December 31, 2010</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 194,179	\$ 172,172
Accounts receivable, net	131,020	119,054
Inventories, net	73,879	68,435
Other receivables	4,006	2,919
Prepaid expenses	11,082	8,207
Other current assets	9,937	18,920
<b>Total current assets</b>	<b>424,103</b>	<b>389,707</b>
Property, plant and equipment, net	179,240	179,012
Intangible assets, net	26,154	27,538
Long-term prepaid expenses	7,456	8,235
Other non-current assets	21,357	21,252
<b>Total assets</b>	<b>\$ 658,310</b>	<b>\$ 625,744</b>
<b>Liabilities and Stockholders Equity</b>		
Current liabilities		
Accounts payable	\$ 74,040	\$ 58,264
Other accounts payable	10,869	14,645
Accrued expenses	43,710	32,635
Current portion of capital lease obligations	5,850	5,557
Other current liabilities	3,932	5,048
<b>Total current liabilities</b>	<b>138,401</b>	<b>116,149</b>
Long-term borrowings, net	246,952	246,882
Long-term obligations under capital lease	1,665	3,105
Accrued severance benefits, net	91,503	87,778
Other non-current liabilities	7,902	8,979
<b>Total liabilities</b>	<b>486,423</b>	<b>462,893</b>
Commitments and contingencies (Note 14)		
Stockholders equity		
Common stock, \$0.01 par value, 150,000,000 shares authorized, 39,356,749 and 38,401,985 shares issued and outstanding at March 31, 2011 and December 31, 2010, respectively	394	384

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Additional paid-in capital	97,812	95,585
Retained earnings	94,625	72,157
Accumulated other comprehensive loss	(20,944)	(5,275)
Total stockholders' equity	171,887	162,851
Total liabilities and stockholders' equity	\$ 658,310	\$ 625,744

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

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

	<b>Three Months Ended</b>	
	<b>March 31,</b>	<b>March 31,</b>
	<b>2011</b>	<b>2010</b>
Net sales	\$ 187,921	\$ 179,485
Cost of sales	131,447	130,127
<b>Gross profit</b>	<b>56,474</b>	<b>49,358</b>
Selling, general and administrative expenses	15,401	17,908
Research and development expenses	18,498	20,531
Restructuring and impairment charges		336
IPO incentive	12,146	
Operating income	10,429	10,583
Other income (expenses)		
Interest expense, net	(7,111)	(2,049)
Foreign currency gain, net	21,359	21,616
Other	166	(52)
	14,414	19,515
Income before income taxes	24,843	30,098
Income tax expenses (benefits)	2,375	(1,003)
Net income	\$ 22,468	\$ 31,101
Earnings per common share		
Basic	\$ 0.59	\$ 0.82
Diluted	\$ 0.57	\$ 0.81
Weighted average number of shares		
Basic	38,332,750	37,805,445
Diluted	39,570,522	38,441,991

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

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

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

	Common Stock		Additional Paid-In Capital	Retained Earnings (Accumulated deficit)	Accumulated Other Comprehensive Income (loss)	Total
	Shares	Amount				
<b>Three Months Ended March 31, 2011</b>						
<b>Balance at January 1, 2011</b>	38,401,985	\$ 384	\$ 95,585	\$ 72,157	\$ (5,275)	\$ 162,851
Stock-based compensation			431			431
Issuance of new stock	950,000	10	1,768			1,778
Exercise of stock options	4,764		28			28
Comprehensive income:						
Net Income				22,468		22,468
Fair valuation of derivatives					2,336	2,336
Reclassification to net income from accumulated other comprehensive loss related to hedge derivatives					(4,293)	(4,293)
Foreign currency translation adjustments					(14,267)	(14,267)
Unrealized gains on investments					555	555
Total comprehensive income						6,799
<b>Balance at March 31, 2011</b>	39,356,749	\$ 394	\$ 97,812	\$ 94,625	\$ (20,944)	\$ 171,887
<b>Three Months Ended March 31, 2010</b>						
<b>Balance at January 1, 2010</b>	38,385,544	\$ 384	\$ 223,451	\$ (1,963)	\$ (6,182)	\$ 215,690
Stock-based compensation	18,750		883			883
Comprehensive income:						
Net income				31,101		31,101
Fair valuation of derivatives					(2,054)	(2,054)
Reclassification to net income from accumulated other comprehensive loss related to hedge derivatives					620	620
Foreign currency translation adjustments					(14,907)	(14,907)
Unrealized gains on investments					112	112
Total comprehensive income						14,872
<b>Balance at March 31, 2010</b>	38,404,294	\$ 384	\$ 224,334	\$ 29,138	\$ (22,411)	\$ 231,445

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



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

(Unaudited; in thousands of US dollars)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	<b>March</b>
	<b>2011</b>	<b>31,</b>
		<b>2010</b>
<b>Cash flows from operating activities</b>		
Net income	\$ 22,468	\$ 31,101
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	13,903	15,477
Provision for severance benefits	2,854	3,166
Amortization of debt issuance costs and original issue discount	246	25
Gain on foreign currency translation, net	(23,684)	(23,478)
Gain on disposal of property, plant and equipment, net		(9)
Loss on disposal of intangible assets, net	4	2
Restructuring and impairment charges		336
Stock-based compensation	641	1,473
Cash used for reorganization items		1,579
Other	549	393
Changes in operating assets and liabilities		
Accounts receivable	(9,250)	(29,684)
Inventories	(3,467)	7,206
Other receivables	(1,041)	(1,238)
Other current assets	(1,449)	(3,659)
Deferred tax assets	548	264
Accounts payable	14,289	18,088
Other accounts payable	(1,348)	(1,612)
Accrued expenses	7,153	3,196
Other current liabilities	(1,518)	(2,107)
Long term other payable	184	(2,136)
Payment of severance benefits	(1,610)	(1,092)
Other	(256)	(788)
Net cash provided by operating activities before reorganization items	19,216	16,503
Cash used for reorganization items		(1,579)
Net cash provided by operating activities	19,216	14,924
<b>Cash flows from investing activities</b>		
Proceeds from disposal of plant, property and equipment		4
Purchase of plant, property and equipment	(6,779)	(891)
Payment for intellectual property registration	(165)	(152)
Decrease in short-term financial instruments		329
Collection of guarantee deposits	979	972
Payment of guarantee deposits	(1,004)	(56)
Other	(44)	33
Net cash provided by (used in) investing activities	(7,013)	239

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<b>Cash flows from financing activities</b>		
Proceeds from issuance of common stock	11,425	
Repayment of current portion of long-term debt		(154)
Repayment of obligations under capital lease	(1,562)	
Net cash provided by (used in) financing activities	9,863	(154)
Effect of exchange rates on cash and cash equivalents	(59)	2,754
Net increase in cash and cash equivalents	22,007	17,763
<b>Cash and cash equivalents</b>		
Beginning of the period	172,172	64,925
End of the period	\$ 194,179	\$ 82,688
<b>Supplemental cash flow information</b>		
Cash paid for interest	\$ 5,625	\$ 2,035
Cash paid for income taxes	\$ 2,004	\$ 1,513
<b>Noncash transactions</b>		
Deferred offering costs reclassified as reduction of additional paid-in capital	\$ 9,619	\$

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

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**MagnaChip Semiconductor Corporation and Subsidiaries**

**Notes to Consolidated Financial Statements**

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

**1. General**

***The Company***

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

**2. Significant Accounting Policies**

***Basis of Presentation***

The accompanying unaudited interim consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles in the United States of America (US GAAP). These interim consolidated financial statements include all adjustments consisting only of normal recurring adjustments and the elimination of all intercompany accounts and transactions which are, in the opinion of management, necessary to provide a fair presentation of financial condition and results of operations for the periods presented. These interim consolidated financial statements are presented in accordance with ASC 270, *Interim Reporting*, (ASC 270) and, accordingly, do not include all of the information and note disclosures required by US GAAP for complete financial statements. The results of operations for the three months ended March 31, 2011 are not necessarily indicative of the results to be expected for a full year or for any other periods.

The December 31, 2010 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 adoption of ASU 2010-06 in relation to the Level 3 reconciliation as of January 1, 2011 also did not have a material impact on the Company's financial condition or results of operations.

**3. Completion of Initial Public Offering**

Prior to the Company's initial public offering (IPO), the Company's board of directors and the holders of a majority of its outstanding common units elected to convert the Company from a Delaware limited liability company to a Delaware corporation (the Corporation) and to change the Company's name from MagnaChip Semiconductor LLC to MagnaChip Semiconductor Corporation. The corporate conversion was completed on March 10, 2011. In connection with the corporate conversion, outstanding common units of the Company were automatically converted into shares of common stock of the Corporation, outstanding options to purchase common units of the Company were automatically converted into options to purchase shares of common stock of the Corporation and outstanding warrants to purchase common units of the Company were automatically converted into warrants to purchase shares of common stock of the Corporation, all at a ratio of one share of common stock for eight common units.



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**MagnaChip Semiconductor Corporation and Subsidiaries**

**Notes to Consolidated Financial Statements - (Continued)**

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

On March 16, 2011, the Company also completed an IPO of 9,500,000 shares of common stock at an offering price of \$14.00 per share and on March 11, 2011 listed on the NYSE. All shares were sold in the form of depositary shares and each depositary share represented an ownership interest in one share of common stock. Of the 9,500,000 shares, 950,000 shares were newly issued by the Company and 8,550,000 shares were sold by selling stockholders. The Company received \$12,369 thousand of net proceeds from the issuance of the new shares of common stock after deducting underwriters' discounts and commissions, and the Company did not receive any proceeds from the sale of shares of common stock offered by the selling stockholders. The Company incurred \$10,591 thousand of IPO expenses that were initially recorded as other current assets and, upon completion of IPO, reclassified as reduction of additional paid-in capital in the consolidated balance sheets.

The Company previously stated an intention to use a part of the net proceeds from the IPO to make incentive payments to all employees, excluding management. The payment of such employee incentives was contingent upon the consummation of the IPO. The Company paid \$12,146 thousand of the incentives in March 2011.

**Table of Contents****MagnaChip Semiconductor Corporation and Subsidiaries****Notes to Consolidated Financial Statements - (Continued)****(Unaudited; tabular dollars in thousands, except share data)****4. Inventories**

Inventories as of March 31, 2011 and December 31, 2010 consist of the following:

	March 31, 2011	December 31, 2010
Finished goods	\$ 10,851	\$ 13,529
Semi-finished goods and work-in-process	52,920	50,542
Raw materials	14,740	9,762
Materials in-transit	1,108	1,643
Less: inventory reserve	(5,740)	(7,041)
Inventories, net	\$ 73,879	\$ 68,435

**5. Property, Plant and Equipment**

Property, plant and equipment as of March 31, 2011 and December 31, 2010 comprise the following:

	March 31, 2011	December 31, 2010
Buildings and related structures	\$ 76,061	\$ 73,945
Machinery and equipment	122,220	112,398
Vehicles and others	8,513	8,007
Equipment under capital lease	11,748	11,457
	218,542	205,807
Less: accumulated depreciation	(53,726)	(41,440)
accumulated depreciation on equipment under capital lease	(1,500)	(836)
Land	15,924	15,481
Property, plant and equipment, net	\$ 179,240	\$ 179,012

**6. Intangible Assets**

Intangible assets as of March 31, 2011 and December 31, 2010 are as follows:

	March 31, 2011	December 31, 2010
Technology	\$ 20,762	\$ 19,969
Customer relationships	27,892	27,115

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Intellectual property assets	5,737	5,444
In-process research and development	3,295	3,418
Less: accumulated amortization	(31,532)	(28,408)
Intangible assets, net	\$ 26,154	\$ 27,538

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

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

Details of derivative contracts as of March 31, 2011 are as follows:

Date of transaction	Type of derivative	Total notional amount	Month of settlement
May 25, 2010	Option	\$ 30,000	January to June 2011
May 25, 2010	Forward	78,000	January to June 2011
August 12, 2010	Zero cost collar	108,000	July to December 2011
January 17, 2011	Zero cost collar	60,000	January to June 2012
March 16, 2011	Zero cost collar	24,000	January to March 2012

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 March 31, 2011 and December 31, 2010 are as follows:

		March 31, 2011	December 31, 2010
<b>Derivatives designated as hedging instruments:</b>			
<b>Asset Derivatives:</b>			
Options	Other current assets	\$ 23	\$ 104
Forward	Other current assets	\$ 4,605	\$ 6,674
Zero cost collars	Other current assets	\$ 2,309	\$ 1,544
<b>Liability Derivatives:</b>			
Zero cost collars	Other non current liabilities	\$ 149	\$

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 Corporation and Subsidiaries****Notes to Consolidated Financial Statements - (Continued)****(Unaudited; tabular dollars in thousands, except share data)**

The following table summarizes the impact of derivative instruments on the consolidated statement of operations for the three months ended March 31, 2011:

Derivatives in Cash Flow	Amount of Gain (Loss) Recognized in AOCI on Derivatives (Effective Portion)	Location of Gain (Loss) Reclassified from AOCI into Statement of Operations (Effective Portion)	Amount of Gain (Loss) Reclassified from AOCI into Statement of Operations (Effective Portion)	Location of Gain (Loss) Recognized in Statement of Operations on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)		Amount of Gain (Loss) Recognized in Statement of Operations on Derivatives (Ineffective Portion and Amount Excluded from Effectiveness Testing)
				Other income (expenses)	Others	
Options	\$ (71)	Net sales	\$ (333)	Other income (expenses)		\$ (11)
Forward	1,810	Net sales				