

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:

		September 30, 2010
Derivatives designated as hedging instruments under ASC 815:		
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.

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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 Excluded from Effectiveness Testing	Amount	
Hedging Relationships				Other income (expenses)	Others	
Options	\$ (24)	Net sales	\$ (230)	Other income (expenses)	Others	\$
Forwards	7,108	Net sales	(2,144)	Other income (expenses)	Others	281
Zero cost collars	1,123	Net sales		Other income (expenses)	Others	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
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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
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