

MAGNACHIP SEMICONDUCTOR LLC

Form 10-Q

November 16, 2005

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

(Mark one)

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended October 2, 2005

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 333-126019-09

**MAGNACHIP SEMICONDUCTOR LLC**

(Exact name of Registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of

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

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incorporation or organization)

c/o MagnaChip Semiconductor S.A.

10, rue de Vianden, L-2680

Luxembourg, Grand Duchy of Luxembourg  
(Address of principal executive offices)

Not Applicable  
(Zip Code)

Registrant's telephone number, including area code: (352) 45-62-62

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 is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes  No

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

As of November 14, 2005, the registrant had 53,037,319.672 of the registrant's 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. Financial Statements****MagnaChip Semiconductor LLC and Subsidiaries****Condensed Consolidated Statements of Operations****(Unaudited; in thousands of US dollars, except unit data)**

	Three months ended October 2, 2005	Nine months ended October 2, 2005	Three months ended September 30, 2004	Nine months ended September 30, 2004
	(Successor Company)		(Predecessor Company)	
Net sales				
Related party	\$	\$	\$	\$
Others	243,089	692,502	236,150	677,828
	243,089	692,502	277,408	841,588
Cost of sales	181,177	544,234	220,589	654,569
Gross profit	61,912	148,268	56,819	187,019
Selling, general and administrative expenses	28,166	89,163	18,029	53,982
Research and development expenses	27,043	80,630	27,453	75,657
Restructuring and impairment charges		8,720		
Operating income (loss)	6,703	(30,245)	11,337	57,380
Other income (expenses)				
Interest expense, net	(14,944)	(42,836)	(4,876)	(17,749)
Foreign currency gain (loss), net	(5,473)	(4,667)	(261)	5,364
Others			312	1,070
	(20,417)	(47,503)	(4,825)	(11,315)
Income (loss) before income taxes	(13,714)	(77,748)	6,512	46,065
Income tax expenses (benefits)	(472)	256	764	2,828
Net income (loss)	\$ (13,242)	\$ (78,004)	\$ 5,748	\$ 43,237
Non cash dividends to preferred unitholders	2,506	7,379		

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Net loss attributable to common units	<u>\$ (15,748)</u>	<u>\$ (85,383)</u>
Net loss per common units		
- Basic and diluted	<u>\$ (0.30)</u>	<u>\$ (1.62)</u>
Weighted average number of units		
- Basic and diluted	53,037,320	52,848,430

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

**Table of Contents****MagnaChip Semiconductor LLC and Subsidiaries****Condensed Consolidated Balance Sheets****(Unaudited; in thousands of US dollars, except unit data)**

	<u>October 2, 2005</u>	<u>December 31, 2004</u>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 71,027	\$ 58,396
Restricted cash	5,163	12,962
Accounts receivable, net	116,508	86,592
Inventories, net	82,963	86,169
Other receivables	7,582	72,918
Other current assets	7,530	6,915
<b>Total current assets</b>	<b>290,773</b>	<b>323,952</b>
Property, plant and equipment, net	498,308	581,636
Intangibles, net	210,163	211,987
Other non-current assets	53,826	36,955
<b>Total assets</b>	<b>\$ 1,053,070</b>	<b>\$ 1,154,530</b>
<b>Liabilities and Unitholders Equity</b>		
Current liabilities		
Accounts payable	\$ 79,906	\$ 66,163
Other accounts payable	23,083	86,462
Accrued expenses	38,384	31,413
Short-term borrowings	11,118	749
Other current liabilities	10,254	9,892
<b>Total current liabilities</b>	<b>162,745</b>	<b>194,679</b>
Long-term borrowings	750,000	750,000
Accrued severance benefits, net	52,166	50,714
Other non-current liabilities	8,912	6,731
<b>Total liabilities</b>	<b>973,823</b>	<b>1,002,124</b>
Commitments and contingencies		
Series A redeemable convertible preferred units; 60,000 units authorized; 50,091 units issued and 0 units outstanding at October 2, 2005 and December 31, 2004		
Series B redeemable convertible preferred units; 550,000 units authorized; 450,693 units issued and 93,997 units outstanding at October 2, 2005 and December 31, 2004	103,913	96,534
<b>Total redeemable convertible preferred units</b>	<b>103,913</b>	<b>96,534</b>

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Unitholders' equity		
Common units; 65,000,000 units authorized; 53,037,320 units and 52,533,003 units issued and outstanding at October 2, 2005 and December 31, 2004, respectively	53,037	52,533
Additional paid-in capital	2,110	2,100
Accumulated deficit	(104,649)	(19,266)
Accumulated other comprehensive income	24,836	20,505
Total unitholders' equity (deficit)	(24,666)	55,872
Total liabilities, redeemable convertible preferred units and unitholders' equity	\$ 1,053,070	\$ 1,154,530

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

**Table of Contents****MagnaChip Semiconductor LLC and Subsidiaries****Condensed Consolidated Statements of Cash Flows****(Unaudited; in thousands of US dollars)**

	<u>Nine months ended</u> <u>October 2, 2005</u>	<u>Nine months ended</u> <u>September 30, 2004</u>
	(Successor Company)	(Predecessor Company)
<b>Cash flows from operating activities</b>		
Net income (loss)	\$ (78,004)	\$ 43,237
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization	154,748	266,862
Provision for severance benefits	12,189	15,353
Amortization of debt issuance costs	2,561	
Loss on foreign currency translation, net	5,451	
(Gain) on disposal of property, plant and equipment, net	(860)	(488)
Impairment charges on property, plant and equipment	7,996	
Stock compensation		3,324
Others, net	(1,662)	(673)
Changes in operating assets and liabilities		
Accounts receivable	(31,257)	(7,067)
Inventories	2,637	(18,070)
Other receivables	65,323	
Accounts payable	12,233	(5,719)
Other accounts payable	(76,377)	18,329
Accrued expenses	4,564	584
Other current assets	2,684	(1,177)
Other current liabilities	(438)	1,450
Payment of severance benefits	(10,664)	(6,602)
Others, net	(13,918)	2,828
Net cash provided by operating activities	<u>57,206</u>	<u>312,171</u>
<b>Cash flows from investing activities</b>		
Purchase of plant, property and equipment	(39,839)	(84,595)
Purchases of intangibles, net	(1,614)	(2,128)
Acquisition of business	(16,451)	
Decrease in restricted cash	7,876	
Others, net	3,120	1,392
Net cash used in investing activities	<u>(46,908)</u>	<u>(85,331)</u>
<b>Cash flows from financing activities</b>		
Repayment of short-term borrowings	(12,400)	(46,978)
Repayment of long-term borrowings		(179,862)
Proceeds from short-term borrowings	10,578	
Others, net	(80)	

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Net cash used in financing activities	(1,902)	(226,840)
Effect of exchange rates on cash and cash equivalents	(385)	
Net decrease in cash and cash equivalents	8,011	
<b>Cash and cash equivalents</b>		
Beginning of the period	58,396	
Net increase in cash and cash equivalents from changes of consolidated subsidiaries	4,620	
End of the period	\$ 71,027	\$

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

**Table of Contents****MagnaChip Semiconductor LLC and Subsidiaries****Notes to Condensed Consolidated Financial Statements****(Unaudited; tabular dollars in thousands, except unit data)****1. Basis of Presentation**

The accompanying unaudited interim consolidated financial statements of MagnaChip Semiconductor LLC and its subsidiaries (successor company) (the Company) have been prepared in accordance with Accounting Principle Board (APB) Opinion No. 28, *Interim Financial Reporting* regarding interim financial information and, accordingly, do not include all of the information and note disclosures required by generally accepted accounting principles in the United States of America for complete financial statements. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto for the three-month period ended December 31, 2004, and for the nine-month period ended September 30, 2004, which are included in our S-4 Registration Statement that was filed on June 21, 2005, and the amendments thereto, with the Securities and Exchange Commission. In the opinion of the Company's management, the unaudited interim consolidated financial statements include all normal recurring adjustments necessary to present fairly the information required to be set forth therein. The results of operations for the three-month and nine-month periods ended October 2, 2005 are not necessarily indicative of the results to be expected for a full year or for any other periods.

For the periods as of and prior to September 30, 2004, the accompanying unaudited interim consolidated financial statements are presented on a carve-out basis reflecting the assets, liabilities, revenues, expenses and changes in owner's equity and cash flows that were directly attributable to the non-memory business (the Business) of Hynix Semiconductor, Inc., which was purchased on October 6, 2004 (the Acquisition). The Company has used October 1, 2004, as the effective date of the Acquisition since the financial results from October 1, 2004 onwards accrue to its benefit.

**2. Inventories**

Inventories as of October 2, 2005 and December 31, 2004 consist of the following:

	<b>October 2, 2005</b>	<b>December 31, 2004</b>
Finished goods	\$ 19,821	\$ 28,431
Semi-finished goods and work-in-progress	64,569	55,563
Raw materials	4,904	7,599
Materials in-transit	4,562	850
Less: valuation allowance	(10,893)	(6,274)
<b>Inventories, net</b>	<b>\$ 82,963</b>	<b>\$ 86,169</b>

**Table of Contents****MagnaChip Semiconductor LLC and Subsidiaries****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited; tabular dollars in thousands, except unit data)****3. Product Warranties**

Accrued warranty liabilities as of October 2, 2005 and December 31, 2004 are as follows:

	<u>October 2, 2005</u>	<u>December 31, 2004</u>
Balance at January 1, 2005 and October 1, 2004	\$ 1,448	\$ 2,677
Accrued (reduced) warranty reserve	1,500	(977)
Costs incurred	(1,705)	(477)
Translation adjustments	(6)	225
	<u>          </u>	<u>          </u>
Balance at October 2, 2005 and December 31, 2004	<u>\$ 1,237</u>	<u>\$ 1,448</u>

**4. Short-term and Long-term Borrowings**

Details of short-term borrowings as of October 2, 2005 and December 31, 2004 are as follows:

	<u>October 2, 2005</u>		<u>December 31, 2004</u>	
	<u>Annual interest</u> <u>rate (%)</u>	<u>Amount of</u> <u>principal</u>	<u>Annual interest</u> <u>rate (%)</u>	<u>Amount of</u> <u>principal</u>
Banker's Usance	2.81 ~ 4.95	\$ 11,118	1.05 ~ 1.55	\$ 749

Details of long-term borrowings as of October 2, 2005 and December 31, 2004 are presented as below:

	<u>Maturity</u>	<u>Annual interest</u>	<u>Amount of</u>
		<u>rate (%)</u>	<u>principal</u>
Floating Rate Second Priority Senior Secured Notes	2011	3 month LIBOR + 3.250	\$ 300,000

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6 <sup>7/8</sup> % Second Priority Senior Secured Notes	2011	6.875	200,000
8% Senior Subordinated Notes	2014	8.000	250,000
			\$ 750,000

**Interest Rate Swap:** Effective June 27, 2005, the Company entered into an interest rate swap agreement (the *Swap*) that converted the variable interest rate based on the 3-month London Inter-bank Offering Rate ( *LIBOR* ) plus 3.25% to fixed interest rate on the Company's Floating Rate Second Priority Senior Secured Notes (the *Notes* ). This Swap will be in effect until 15 June, 2008.

The Swap qualifies as a cash flow hedge under Statements of Financial Accounting Standards ( *SFAS* ) No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended. 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. Under this methodology, the actual swap was effective when compared to the hypothetical hedge.

For the three and nine-month periods ended October 2, 2005, the Company recorded changes in the fair value of the Swap amounting to \$2,962,033 and \$3,045,399, respectively, under other comprehensive income in the accompanying consolidated financial statements. In addition, during the same periods, the Company recognized additional interest expense of \$435,333 and \$475,000, respectively, which represent the differences between fixed and variable rate.

**Table of Contents****MagnaChip Semiconductor LLC and Subsidiaries****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited; tabular dollars in thousands, except unit data)****5. Accrued Severance Benefits**

Changes in accrued severance benefits for the three and nine-month periods ended October 2, 2005 (successor company) and for the three and nine-month periods ended September 30, 2004 (predecessor company) are as follows:

	Three months ended October 2, 2005	Nine months ended October 2, 2005	Three months ended September 30, 2004	Nine months ended September 30, 2004
	(Successor Company)		(Predecessor Company)	
Beginning balance	\$ 53,870	\$ 52,925	\$ 50,793	\$ 40,015
Provisions	4,063	12,189	3,840	15,353
Transferred from acquired company		196		
Severance payments	(3,201)	(10,664)	(4,763)	(6,837)
Effect of foreign currency translation and other	(694)	(608)	133	1,472
	<u>54,038</u>	<u>54,038</u>	<u>50,003</u>	<u>50,003</u>
Less: Cumulative contributions to the National Pension Fund	(950)	(950)	(1,304)	(1,304)
Group Severance insurance plan	(922)	(922)	(1,202)	(1,202)
	<u>\$ 52,166</u>	<u>\$ 52,166</u>	<u>\$ 47,497</u>	<u>\$ 47,497</u>

The severance benefits are funded approximately 3.46% and 5.01% as of October 2, 2005 and September 30, 2004, respectively, through our national pension fund and group severance insurance deposit 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.

In addition, the Company expects to pay the following future benefits to its employees upon their normal retirement age:

	Retirement benefit
2005 - 2008	\$

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2009	65
2010 - 2014	1,235

The above amounts were determined based on the employees' current rate of salary and the number of service years that will be accumulated when they would meet their normal retirement date. These amounts do not include amounts that might be paid to employees who may terminate employment with the Company before their normal retirement age.

**Table of Contents****MagnaChip Semiconductor LLC and Subsidiaries****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited; tabular dollars in thousands, except unit data)****6. Series B Redeemable Convertible Preferred Units**

Changes in series B redeemable convertible preferred units for the three and nine-month periods ended October 2, 2005 were as follows:

	Three months ended		Nine months ended	
	October 2, 2005		October 2, 2005	
	Units	Amounts	Units	Amounts
Beginning of period	93,997	\$ 101,407	93,997	\$ 96,534
Accrual of non cash preferred dividends		2,506		7,379
End of period	93,997	\$ 103,913	93,997	\$ 103,913

**7. Earnings per Unit**

The following table illustrates the computation of basic loss per common unit for the three and nine-month periods ended October 2, 2005.

	Three months ended	Nine months ended
	October 2, 2005	October 2, 2005
Net loss	\$ (13,242)	\$ (78,004)
Non cash dividends to preferred unitholders	2,506	7,379
Net loss attributable to common units	\$ (15,748)	\$ (85,383)
Weighted-average common units outstanding	53,037,320	52,848,430
Basic loss per unit	\$ (0.30)	\$ (1.62)

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The following outstanding redeemable convertible preferred units issued, options granted and warrants issued were excluded from the computation of diluted loss per unit as they would have an anti-dilutive effect on the calculation:

	<b>Three and Nine months ended</b>
	<b>October 2, 2005</b>
Redeemable convertible preferred units	93,997
Options	3,536,080
Warrants	5,079,254

In connection with the Acquisition, the Company issued a warrant to Hynix which enables Hynix to purchase 5,079,254 common units of the Company at an exercise price of \$1.00 per unit. This warrant expires on October 6, 2006. Refer to Note 8. Unit-Based Compensation for details of option grants.

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

In addition to 1,146,178 options to purchase the Company's common units outstanding as of January 1, 2005, the Company granted on January 5, 2005, 1,922,500 options to purchase common units to management and employees with exercise prices ranging from \$1 to \$3 per unit. Under the Company's Equity Incentive Plan, 25% of the units vested with a right to exercise by the option holder on September 30, 2005 and 6.25% of the units will vest with a right to exercise on the last day of each calendar quarter thereafter pursuant to the resolution approved by board of directors.

Subsequent to the grants on January 5, 2005, the Company additionally granted 900,062 options to purchase common units to its management and employees with exercise prices ranging from \$1 to \$3 per unit. Most of these options have a vesting term of 25% of the units on the first anniversary of the grant date and 6.25% of the units on the last day of each calendar quarter thereafter pursuant to the resolution of the Company's board of directors.

During the nine months ended October 2, 2005, 432,660 of previously issued options to purchase common units were forfeited.

The Company accounts for unit-based awards to employees using the intrinsic value method prescribed by Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*; accordingly, no compensation cost was recorded for the nine months ended October 2, 2005. The Company utilizes the Black-Scholes option valuation model to value options for pro forma presentation of income as if the fair value based accounting method in SFAS No. 123, *Accounting for Stock-Based Compensation*, had been used to account for unit-based compensation and the Company's adjusted net income (loss) would have increased and is illustrated in the pro forma table below:

	Three months ended October 2, 2005	Nine months ended October 2, 2005	Three months ended September 30, 2004	Nine months ended September 30, 2004
	(Successor Company)		(Predecessor Company)	
As reported net income (loss)	\$ (13,242)	\$ (78,004)	\$ 5,748	\$ 43,237
Add: Amortization of non-cash deferred unit compensation expense determined under the intrinsic value method as reported in net income, net of tax			(550)	3,324
Deduct: Total unit-based employee compensation expense determined under the fair value method for all awards, net of tax	(109)	(327)	(3,849)	(5,614)
Pro forma net income (loss)	\$ (13,351)	\$ (78,331)	\$ 1,349	\$ 40,947

Pro forma loss per unit	\$ (0.30)	\$ (1.62)
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**Table of Contents****MagnaChip Semiconductor LLC and Subsidiaries****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited; tabular dollars in thousands, except unit data)**

The weighted average fair value of options granted during the three and nine months ended October 2, 2005 (Successor Company) was \$0.09 and \$0.22, respectively.

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model based on the following set of assumptions (average-weight):

Expected life	2.2 Years
Expected volatility	60.3%
Risk-free interest rate	3.0%
Expected dividends	

**9. Restructuring and Impairment Charges**

During the nine months ended October 2, 2005, the Company recorded restructuring and asset impairment charges totaling \$8,720 thousand, as the Company determined that recent strategic decisions to outsource some of the manufacturing processes would impact future cash flows of certain capital equipment used specifically for packaging and testing of one of the Company's product lines. Based on such decisions, the Company recognized an impairment charge of \$7,996 thousand for long-lived assets under Statements of Financial Accounting Standards No. 144 *Accounting for the Impairment or Disposal of Long-Lived Assets* as well as a one time restructuring charge of \$724 thousand for completion of an early retirement program.

**10. Comprehensive Income**

Comprehensive income is as follows:

	Three months ended October 2, 2005	Nine months ended October 2, 2005	Three months ended September 30, 2004	Nine months ended September 30, 2004
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
	(Successor Company)	(Predecessor Company)		
Net income (loss)	\$ (13,242)	\$ (78,004)	\$ 5,748	\$ 43,237
Fair valuation of derivatives	2,962	3,045		
Foreign currency translation effect and others	(1,246)	1,286	210	4,842
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>

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Comprehensive income (loss)	\$ (11,526)	\$ (73,673)	\$ 5,958	\$ 48,079
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**MagnaChip Semiconductor LLC and Subsidiaries**

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

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

**11. Condensed Consolidating Financial Statements**

The senior secured credit facility and Second Priority Senior Secured Notes are each fully and unconditionally guaranteed by MagnaChip Semiconductor LLC and all of its subsidiaries, except for Shanghai Ximei Corporation (China) and IC Media Japan Kabushiki Kaisha (Japan). The Senior Subordinated Notes are fully and unconditionally guaranteed by MagnaChip Semiconductor LLC and all of its subsidiaries, except for MagnaChip Semiconductor, Ltd. (Korea), Shanghai Ximei Corporation (China) and IC Media Japan Kabushiki Kaisha (Japan). Below are the condensed consolidating balance sheets as of October 2, 2005 and December 31, 2004, condensed consolidating statements of operations for the three and nine months ended October 2, 2005 (Successor Company) and condensed consolidating statement of cash flows for the nine months ended October 2, 2005 of those entities that guarantee the Senior Subordinated Notes, those that do not, MagnaChip Semiconductor LLC, and the co-issuers.

**Table of Contents****MagnaChip Semiconductor LLC and Subsidiaries****Notes to Condensed Consolidated Financial Statements (Continued)**

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

**Condensed Consolidating Balance Sheet**

October 2, 2005

	MagnaChip Semiconductor LLC (Parent)	MagnaChip Semiconductor Finance Company & MagnaChip Semiconductor S.A. (Co-Issuers)	Non-Guarantors	Guarantors	Eliminations	Consolidated
<b>Assets</b>						
Current assets						
Cash and cash equivalents	\$ 281	\$ 667	\$ 48,751	\$ 21,328	\$	\$ 71,027
Restricted cash			5,163			5,163
Accounts receivable, net			128,931	53,238	(65,661)	116,508
Inventories, net			76,461	7,969	(1,467)	82,963
Other receivables	35,014	718	6,489	35,097	(69,736)	7,582
Short-term inter company loans		5,625		14,000	(19,625)	
Other current assets		27,009	8,741	10,172	(38,392)	7,530
<b>Total current assets</b>	<b>35,295</b>	<b>34,019</b>	<b>274,536</b>	<b>141,804</b>	<b>(194,881)</b>	<b>290,773</b>
Property, plant and equipment, net						
Intangibles, net			497,117	1,191		498,308
Investments in subsidiaries	44,952	(24,914)		155,681	(175,719)	
Long-term inter company loans		776,755		621,000	(1,397,755)	
Other non-current assets		23,339	44,742	12,804	(27,059)	53,826
<b>Total assets</b>	<b>\$ 80,247</b>	<b>\$ 809,199</b>	<b>\$ 999,547</b>	<b>\$ 959,491</b>	<b>\$ (1,795,414)</b>	<b>\$ 1,053,070</b>
<b>Liabilities and Unitholders equity</b>						
Current liabilities						
Accounts payable	\$	\$	\$ 80,310	\$ 65,257	\$ (65,661)	\$ 79,906
Other accounts payable	1,000	435	55,900	35,484	(69,736)	23,083
Accrued expenses		11,531	33,347	28,675	(35,169)	38,384
Short-term borrowings			11,118	19,625	(19,625)	11,118
Other current liabilities		124	3,483	9,870	(3,223)	10,254
<b>Total current liabilities</b>	<b>1,000</b>	<b>12,090</b>	<b>184,158</b>	<b>158,911</b>	<b>(193,414)</b>	<b>162,745</b>
Long-term borrowings						
Accrued severance benefits, net		750,000	621,000	776,755	(1,397,755)	750,000
			51,911	255		52,166

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Other non-current liabilities			6,849	29,122	(27,059)	8,912
Total liabilities	1,000	762,090	863,918	965,043	(1,618,228)	973,823

**Table of Contents****MagnaChip Semiconductor LLC and Subsidiaries****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited; tabular dollars in thousands, except unit data)****Condensed Consolidating Balance Sheet****October 2, 2005**

	<b>MagnaChip Semiconductor Finance Company &amp; MagnaChip MagnaChip Semiconductor Semiconductor LLC S.A. (Parent) (Co-Issuers)</b>		<b>Non-Guarantors</b>	<b>Guarantors</b>	<b>Eliminations</b>	<b>Consolidated</b>
Commitments and contingencies						
Series A redeemable convertible preferred units						
Series B redeemable convertible preferred units	103,913					103,913
<b>Total redeemable convertible preferred units</b>	<b>103,913</b>					<b>103,913</b>
Unitholders equity						
Common units	53,037	102,986	38,845	61,063	(202,894)	53,037
Additional paid-in capital	2,110	1,027	155,212	63,371	(219,610)	2,110
Accumulated deficit	(104,649)	(81,911)	(80,573)	(153,376)	315,860	(104,649)
Accumulated other comprehensive income	24,836	25,007	22,145	23,390	(70,542)	24,836
<b>Total unitholders equity (deficit)</b>	<b>(24,666)</b>	<b>47,109</b>	<b>135,629</b>	<b>(5,552)</b>	<b>(177,186)</b>	<b>(24,666)</b>
<b>Total liabilities, redeemable convertible preferred units and unitholders equity</b>	<b>\$ 80,247</b>	<b>\$ 809,199</b>	<b>\$ 999,547</b>	<b>\$ 959,491</b>	<b>\$ (1,795,414)</b>	<b>\$ 1,053,070</b>

**Table of Contents****MagnaChip Semiconductor LLC and Subsidiaries****Notes to Condensed Consolidated Financial Statements (Continued)**

(tabular dollars in thousands, except unit data)

**Condensed Consolidating Balance Sheet****December 31, 2004**

	MagnaChip Semiconductor Finance Company & MagnaChip Semiconductor		MagnaChip Semiconductor			
	LLC (Parent)	S.A. (Co-Issuers)	Non-Guarantors	Guarantors	Eliminations	Consolidated
<b>Assets</b>						
Current assets						
Cash and cash equivalents	\$ 2,386	\$ 3,201	\$ 29,671	\$ 23,138	\$	\$ 58,396
Restricted cash			12,962			12,962
Accounts receivable, net			99,125	42,724	(55,257)	86,592
Inventories, net			77,338	10,380	(1,549)	86,169
Other receivables	34,773	1,544	70,857	2,061	(36,317)	72,918
Short-term inter company loans		10,625			(10,625)	
Other current assets		5,909	5,196	1,719	(5,909)	6,915
<b>Total current assets</b>	<b>37,159</b>	<b>21,279</b>	<b>295,149</b>	<b>80,022</b>	<b>(109,657)</b>	<b>323,952</b>
Property, plant and equipment, net			581,514	122		581,636
Intangibles, net			211,981	6		211,987
Investments in subsidiaries	116,409	29,231		205,358	(350,998)	
Long-term inter company loans		794,805		619,991	(1,414,796)	
Other non-current assets		21,869	15,026	60		36,955
<b>Total assets</b>	<b>\$ 153,568</b>	<b>\$ 867,184</b>	<b>\$ 1,103,670</b>	<b>\$ 905,559</b>	<b>\$ (1,875,451)</b>	<b>\$ 1,154,530</b>
<b>Liabilities and Unitholders equity</b>						
Current liabilities						
Accounts payable	\$	\$	\$ 64,688	\$ 56,732	\$ (55,257)	\$ 66,163
Other accounts payable	1,162	252	118,572	2,793	(36,317)	86,462
Accrued expenses		1,129	29,950	6,243	(5,909)	31,413

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Short-term borrowings			749	8,650	(8,650)	749
Other current liabilities			8,878	1,014		9,892
			<hr/>	<hr/>	<hr/>	<hr/>
Total current liabilities	1,162	1,381	222,837	75,432	(106,133)	194,679
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Long-term borrowings		750,000	619,991	796,780	(1,416,771)	750,000
Accrued severance benefits, net			50,702	12		50,714
Other non-current liabilities			4,783	1,948		6,731
			<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	1,162	751,381	898,313	874,172	(1,522,904)	1,002,124
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

**Table of Contents****MagnaChip Semiconductor LLC and Subsidiaries****Notes to Condensed Consolidated Financial Statements (Continued)**

(tabular dollars in thousands, except unit data)

**Condensed Consolidating Balance Sheet****December 31, 2004**

	<b>MagnaChip Semiconductor Finance Company &amp; MagnaChip MagnaChip Semiconductor Semiconductor LLC S.A. (Parent) (Co-Issuers)</b>		<b>Non-Guarantors</b>	<b>Guarantors</b>	<b>Eliminations</b>	<b>Consolidated</b>
Commitments and contingencies						
Series A redeemable convertible preferred units						
Series B redeemable convertible preferred unites	96,534					96,534
<b>Total redeemable convertible preferred units</b>	<b>96,534</b>					<b>96,534</b>
Unitholders equity						
Common units	52,533	102,986	38,845	261	(142,092)	52,533
Additional paid-in capital	2,100	1,027	155,212	29,370	(185,609)	2,100
Accumulated deficit	(19,266)	(8,715)	(9,420)	(18,784)	36,919	(19,266)
Accumulated other comprehensive income	20,505	20,505	20,720	20,540	(61,765)	20,505
<b>Total unitholders equity</b>	<b>55,872</b>	<b>115,803</b>	<b>205,357</b>	<b>31,387</b>	<b>(352,547)</b>	<b>55,872</b>
<b>Total liabilities, redeemable convertible preferred units and unitholders equity</b>	<b>\$ 153,568</b>	<b>\$ 867,184</b>	<b>\$ 1,103,670</b>	<b>\$ 905,559</b>	<b>\$ (1,875,451)</b>	<b>\$ 1,154,530</b>

**Table of Contents****MagnaChip Semiconductor LLC and Subsidiaries****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited; tabular dollars in thousands, except unit data)****Condensed Consolidating Statement of Operations****For the nine months ended October 2, 2005**

	MagnaChip Semiconductor Finance Company & MagnaChip Semiconductor		MagnaChip Semiconductor			
	LLC (Parent)	S.A. (Co-Issuers)	Non-Guarantors	Guarantors	Eliminations	Consolidated
Net sales	\$	\$	\$ 673,969	\$ 318,381	\$ (299,848)	\$ 692,502
Cost of sales			540,155	299,970	(295,891)	544,234
Gross profit			133,814	18,411	(3,957)	148,268
Selling, general and administrative expenses	353	1,408	77,369	12,058	(2,025)	89,163
Research and development expenses			75,731	6,841	(1,942)	80,630
Restructuring and impairment charge			8,720			8,720
Operating income (loss)	(353)	(1,408)	(28,006)	(488)	10	(30,245)
Other income (expenses)	6	(11,065)	(43,147)	6,703		(47,503)
Income before income taxes, equity in earnings (loss) of related equity investment	(347)	(12,473)	(71,153)	6,215	10	(77,748)
Income tax expense (benefit)		123		133		256
Income (loss) before equity in earnings (loss) of related Investment	(347)	(12,596)	(71,153)	6,082	10	(78,004)
Earnings (loss) of related investment	(77,657)	(60,600)		(68,916)	207,173	

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Net income (loss)	\$ (78,004)	\$ (73,196)	\$ (71,153)	\$ (62,834)	\$ 207,183	\$ (78,004)
Non cash dividends to preferred unitholders	7,379					7,379
Net income (loss) attributable to common units	\$ (85,383)	\$ (73,196)	\$ (71,153)	\$ (62,834)	\$ 207,183	\$ (85,383)

**Table of Contents****MagnaChip Semiconductor LLC and Subsidiaries****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited; tabular dollars in thousands, except unit data)****Condensed Consolidating Statement of Operations****For the three months ended October 2, 2005**

	MagnaChip Semiconductor Finance Company & MagnaChip Semiconductor		MagnaChip Semiconductor			
	LLC (Parent)	S.A. (Co-Issuers)	Non-Guarantors	Guarantors	Eliminations	Consolidated
Net sales	\$	\$	\$ 239,454	\$ 115,232	\$ (111,597)	\$ 243,089
Cost of sales			182,430	105,692	(106,945)	181,177
Gross profit			57,024	9,540	(4,652)	61,912
Selling, general and administrative expenses	238	822	26,595	3,675	(3,164)	28,166
Research and development expenses			24,123	3,723	(803)	27,043
Restructuring and impairment charge						
Operating income (loss)	(238)	(822)	6,306	2,142	(685)	6,703
Other income (expenses)	1	5,764	(18,495)	(7,687)		(20,417)
Income before income taxes, equity in earnings (loss) of related equity investment	(237)	4,942	(12,189)	(5,545)	(685)	(13,714)
Income tax expense (benefit)		15		(487)		(472)
Income (loss) before equity in earnings (loss) of related Investment	(237)	4,927	(12,189)	(5,058)	(685)	(13,242)
Earnings (loss) of related investment	(13,005)	(17,464)		(8,752)	39,221	

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Net income (loss)	\$ (13,242)	\$ (12,537)	\$ (12,189)	\$ (13,810)	\$ 38,536	\$ (13,242)
Non cash dividends to preferred unitholders	2,506					2,506
Net income (loss) attributable to common units	\$ (15,748)	\$ (12,537)	\$ (12,189)	\$ (13,810)	\$ 38,536	\$ (15,748)

**Table of Contents****MagnaChip Semiconductor LLC and Subsidiaries****Notes to Condensed Consolidated Financial Statements (Continued)****(Unaudited; tabular dollars in thousands, except unit data)****Condensed Consolidating Statement of Cash Flows****For the nine months ended October 2, 2005**

	MagnaChip Semiconductor Finance Company & MagnaChip MagnaChip Semiconductor					
	LLC (Parent)	S.A. (Co-Issuers)	Non-Guarantors	Guarantors	Eliminations	Consolidated
<b>Cash flow from operating activities:</b>						
Net income (loss)	\$ (78,004)	\$ (73,196)	\$ (71,153)	\$ (62,834)	\$ 207,183	\$ (78,004)
Adjustments to reconcile net loss to net cash provided by (used in) operating						
Depreciation and amortization			149,561	5,187		154,748
Provision for severance benefits			12,117	72		12,189
Amortization of debt issuance costs		1,955	606			2,561
(Gain) loss on foreign currency translation, net		19,059	4,181	(17,789)		5,451
(Gain) loss on disposal of property, plant and equipment, net			(861)	1		(860)
Impairment charges on property, plant and equipment			7,996			7,996
Loss (earnings) of related investment	77,657	60,600		68,916	(207,173)	
Others, net			(1,728)	66		(1,662)
Changes in operating assets and liabilities:						
Accounts receivable			(30,556)	(11,105)	10,404	(31,257)
Inventories			87	2,029	521	2,637
Other receivables	(241)	826	65,289	(33,970)	33,419	65,323
Accounts payable			16,567	6,070	(10,404)	12,233
Other accounts payable	(160)	183	(72,206)	29,225	(33,419)	(76,377)
Accrued expenses		10,403	3,644	19,777	(29,260)	4,564
Other current assets		(21,100)	2,285	(7,761)	29,260	2,684
Other current liabilities		123	(5,455)	4,894		(438)
Payment of severance benefits			(10,653)	(11)		(10,664)
Others, net			(31,611)	19,605	(1,912)	(13,918)

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Net cash provided by (used in) operating activities	(748)	(1,147)	38,110	22,372	(1,381)	57,206
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**Table of Contents****MagnaChip Semiconductor LLC and Subsidiaries****Notes to Condensed Consolidated Financial Statements (Continued)**

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

**Condensed Consolidating Statement of Cash Flows**

For the nine months ended October 2, 2005

	MagnaChip Semiconductor Finance Company &					
	MagnaChip Semiconductor LLC (Parent)	MagnaChip Semiconductor S.A. (Co-Issuers)	Non-Guarantors	Guarantors	Eliminations	Consolidated
<b>Cash flows from investing activities:</b>						
Purchases of plant, property and equipment			(39,729)	(511)	401	(39,839)
Purchase of intangibles, net			(1,614)			(1,614)
Acquisition of business	(1,870)			(14,581)		(16,451)
Decrease (increase) of intercompany loans		(1,009)		(15,009)	16,018	
Decrease in restricted cash			7,876			7,876
Others, net			2,997	524	(401)	3,120
<b>Net cash used in investing activities</b>	<b>(1,870)</b>	<b>(1,009)</b>	<b>(30,470)</b>	<b>(29,577)</b>	<b>16,018</b>	<b>(46,908)</b>
<b>Cash flows from financing activities:</b>						
Repayment of short-term borrowings				(12,400)		(12,400)
Proceeds from short-term borrowings			10,578	14,000	(14,000)	10,578
Proceeds from long-term borrowings			1,009	1,009		