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.

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

x **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)

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 þ 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	þ (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 þ 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. þ 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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PART I FINANCIAL INFORMATION

Item 1. Interim Consolidated Financial Statements (Unaudited)

MAGNACHIP SEMICONDUCTOR LLC AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

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

	Successor	
	September 30, 2010	**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		

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

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MAGNACHIP SEMICONDUCTOR LLC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Successor				Predecessor			
	Three Months Ended		Nine Months Ended		Three Months Ended		Nine Months Ended	
	September 30, 2010				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

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

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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 30, 2010						
Balance at July 1, 2010	307,233,996	$ 55,453	$ 39,224	$ (1,609)	$ 8,852	$ 101,920
(Successor Company)						
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	307,083,996	$ 55,135	$ 168,700	$ (1,963)	$ (6,182)	$ 215,690
(Successor Company)						
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	52,923,483	$ 52,923	$ 3,317	$ (1,043,404)	$ 155,500	$ (831,664)
(Predecessor Company)						
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	52,923,483	52,923	3,150	(995,007)	151,135	(787,799)
(Predecessor Company)						
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

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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)

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.

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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:

	Successor	
	September 30, 2010	**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

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:

	Successor	
	September 30, 2010	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:

	Successor	
	September 30, 2010	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.

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.

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MagnaChip Semiconductor LLC and Subsidiaries

Notes to Consolidated Financial Statements - (Continued)

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

7. Derivative Financial Instruments

Effective January 11, 2010, the Company s Korean subsidiary entered into option and forward contracts to hedge the risk of changes in the functional-currency-equivalent cash flows attributable to currency rate changes on U.S. dollar denominated revenues. Total notional amounts for the options and forward contracts were $50 million and $135 million, respectively, and monthly settlements for the contracts were and will be made from February to December 2010.

Effective May 25, 2010, the Company s Korean subsidiary entered into another option and forward contracts to hedge the risk of changes in the functional-currency-equivalent cash flows attributable to currency rate changes on U.S. dollar denominated revenues. Total notional amounts for the options and forward contracts were $30 million and $78 million, respectively, and monthly settlements for the contracts will be made from January to June 2011.

Effective August 12, 2010, the Company s Korean subsidiary entered into zero cost collar contracts to hedge the risk of changes in the functional-currency-equivalent cash flows attributable to currency rate changes on U.S. dollar denominated revenues. Total notional amounts for the zero cost collar contracts were $108 million and monthly settlements for the contracts will be made from July to December 2011.

The option, forward and zero cost collar contracts qualify as cash flow hedges under ASC 815, *Derivatives and Hedging*, (ASC 815), since at both the inception of the contracts and on an ongoing basis, the hedging relationship was and is expected to be highly effective in achieving offsetting cash flows attributable to the hedged risk during the term of the contracts. The Company is utilizing the hypothetical derivative method to measure the effectiveness by comparing the changes in value of the actual derivative versus the change in fair value of the hypothetical derivative.

The fair values of the Company s outstanding option, forward and zero cost collar contracts recorded as assets and liabilities as of September 30, 2010 are as follows:

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

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of accumulated other comprehensive income (AOCI) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on the derivative, representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness, are recognized in current earnings.

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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 Hedging Relationships	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)
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	Amount of Gain (Loss) Recognized in Statement of

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

The Company s option, forward and zero cost collar contracts are subject to termination upon the occurrence of the following events:

(i) On the last day of a fiscal quarter, the sum of qualified and unrestricted cash and cash equivalents held by the Company is less than $30 million.

(ii) The rating of the Company s debt is B- or lower by Standard & Poor s Ratings Group or any successor rating agency thereof (S&P) or B3 or lower by Moody s Investor Services, Inc. or any successor rating agency thereof (Moody s) or the Company s debt ceases to be assigned a rating by either S&P or Moody s.

In addition, the Company is required to deposit cash collateral with Goldman Sachs International Bank, the counterparty to the option, forward and zero cost collar contracts, for any exposure in excess of $5 million.

MagnaChip Semiconductor LLC and Subsidiaries

Notes to Consolidated Financial Statements - (Continued)

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

8. Fair Value Measurements

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

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

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

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

Level 3 Significant inputs to the valuation model are unobservable.

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

	Carrying Value September 30, 2010	Fair Value Measurement September 30, 2010	Quoted Prices in Active Markets for Identical Asset (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:					
Current derivative assets	$ 6,895	$ 6,895	$	$ 6,895	$
Non current derivative assets	561	561		561	
Available-for-sale securities	652	652	652		
Liabilities:					
Current derivative liabilities	528	528		528	

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MagnaChip Semiconductor LLC and Subsidiaries

Notes to Consolidated Financial Statements - (Continued)

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

9. Long-Term Borrowings

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

	Successor	
	September 30, 2010	**December 31, 2009**
New term loan	$	$ 61,750
10.5% senior notes due April 2018	250,000	
Current portion of long-term borrowings		(618)
	250,000	61,132
Discount on 10.5% senior notes due April 2018	(3,186)	
Long-term borrowings, net of unamortized discount	$ 246,814	$ 61,132

New Term Loan

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

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

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

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

MagnaChip Semiconductor LLC and Subsidiaries

Notes to Consolidated Financial Statements - (Continued)

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

10.5% Senior Notes

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

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

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

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

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

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

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

In connection with the issuance of the senior notes, the Company capitalized certain costs and fees, which are being amortized using the effective interest method over its respective term, 2010 to 2018. Amortization costs, which were included in interest expense in the accompanying statements of operations, amounted to $170 and $323 thousand for the three and nine months ended September 30, 2010. The remaining capitalized costs as of September 30, 2010 were $7,990 thousand.

MagnaChip Semiconductor LLC and Subsidiaries

Notes to Consolidated Financial Statements - (Continued)

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

10. Accrued Severance Benefits

The majority of accrued severance benefits is for employees in the Company s Korean subsidiary, MagnaChip Semiconductor Ltd. (Korea). Pursuant to the Employee Retirement Benefit Security Act of Korea, most employees and executive officers with one or more years of service are entitled to severance benefits upon the termination of their employment based on their length of service and rate of pay. As of September 30, 2010, 98.5% of all employees of the Company were eligible for severance benefits.

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

	Successor		Predecessor	
	Three Months Ended	Nine Months Ended	Three Months Ended	Nine Months Ended
	September 30, 2010		September 27, 2009	
Beginning balance	$ 77,538	$ 73,646	$ 62,612	$ 63,147
Provisions	5,743	15,123	4,094	7,831
Severance payments	(1,947)	(4,707)	(877)	(4,085)
Translation adjustments	4,802	2,074	4,836	3,772
	86,136	86,136	70,665	70,665
Less: Cumulative contributions to the National Pension Fund	(487)	(487)	(529)	(529)
Group Severance insurance plan	(706)	(706)	(675)	(675)
Accrued severance benefits, net	$ 84,943	$ 84,943	$ 69,461	$ 69,461

The severance benefits are funded approximately 1.39% and 1.70% as of September 30, 2010 and September 27, 2009, respectively, through the Company s National Pension Fund and group severance insurance plan which will be used exclusively for payment of severance benefits to eligible employees. These amounts have been deducted from the accrued severance benefit balance.

The Company is liable to pay the following future benefits to its non-executive employees upon their normal retirement age:

	Severance benefit
Remainder of 2010	$ 34
2011	
2012	148
2013	
2014	300
2015	338
2016 2020	11,379

The above amounts were determined based on the non-executive employees current salary rates and the number of service years that will be accumulated upon their retirement dates. These amounts do not include amounts that might be paid to non-executive employees that will cease working with the Company before their normal retirement ages.

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MagnaChip Semiconductor LLC and Subsidiaries

Notes to Consolidated Financial Statements - (Continued)

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

11. Redeemable Convertible Preferred Units

Predecessor Company

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

	Three Months Ended September 27, 2009		Nine Months Ended September 27, 2009	
	Units	**Amount**	**Units**	**Amount**
Beginning of period	93,997	$ 148,986	93,997	$ 142,669
Accrual of preferred dividends				6,317
End of period	93,997	$ 148,986	93,997	$ 148,986

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

12. Discontinued Operations

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

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

	Predecessor	
	Three Months Ended	**Nine Months Ended**
	September 27, 2009	
Net sales	$ 299	$ 2,553
Cost of sales	70	3,447
Selling, general and administrative expenses	(7,578)	(6,950)
Restructuring and impairment charges	(1,109)	(1,109)
Income from discontinued operations, net of taxes	$ 8,916	$ 7,165

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MagnaChip Semiconductor LLC and Subsidiaries

Notes to Consolidated Financial Statements - (Continued)

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

13. Restructuring and Impairment Charges

Successor Company

2010 Restructuring and Impairment Charges

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

Predecessor Company

2009 Restructuring and Impairment Charges

On March 31, 2009, the Company announced the closure of the Tokyo office of its subsidiary, MagnaChip Semiconductor Inc. (Japan). In connection with this closure, the Company recognized $439 thousand of restructuring charges, which consisted of one-time termination benefits and other related costs under ASC 420, *Exit or Disposal Cost Obligations,* (ASC 420), for the nine months ended September 27, 2009. There was no remaining accrual as of September 27, 2009.

14. Uncertainty in Income Taxes

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

As of September 30, 2010 and December 31, 2009, the Company recorded $891 thousand and $1,997 thousand of liabilities for unrecognized tax benefits, respectively. For the nine months ended September 30, 2010, the Company reversed $1,640 thousand of liabilities due to the lapse of the applicable statute of limitations and recorded this gain as reduction of income tax expenses in the accompanying statement of operations.

The Company recognizes interest and penalties accrued related to unrecognized tax benefits as income tax expenses. The Company recognized $4 thousand and $68 thousand of interest and penalties as income tax expenses for the three and nine months ended September 30, 2010, respectively. And the Company also recognized $47 thousand and $194 thousand of interest and penalties as income tax expenses for the three and nine months ended September 27, 2009, respectively. Total interest and penalties accrued as of September 30, 2010 and December 31, 2009 were $198 thousand and $946 thousand, respectively.

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MagnaChip Semiconductor LLC and Subsidiaries

Notes to Consolidated Financial Statements - (Continued)

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

15. Geographic and Segment Information

The following sets forth information relating to the reportable segments:

	Three Months Ended	
	Successor September 30, 2010	Predecessor September 27, 2009
Net Sales		
Display Solutions	$ 77,989	$ 75,588
Semiconductor Manufacturing Services	113,171	76,354
Power Solutions	17,801	3,812
All other	487	873
Total segment net sales	$ 209,448	$ 156,627
Gross Profit		
Display Solutions	$ 22,732	$ 20,740
Semiconductor Manufacturing Services	44,396	28,975
Power Solutions	1,700	1,574
All other	487	873
Total segment gross profit	$ 69,315	$ 52,162

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

Total segment gross profit	$ 183,207	$ 121,392

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

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

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

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

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

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

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MagnaChip Semiconductor LLC and Subsidiaries

Notes to Consolidated Financial Statements - (Continued)

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

16. Commitments and Contingencies

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

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

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

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

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MagnaChip Semiconductor LLC and Subsidiaries

Notes to Consolidated Financial Statements - (Continued)

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

17. Earnings per Unit

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

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

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MagnaChip Semiconductor LLC and Subsidiaries

Notes to Consolidated Financial Statements - (Continued)

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

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

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

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

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MagnaChip Semiconductor LLC and Subsidiaries

Notes to Consolidated Financial Statements - (Continued)

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

18. Subsequent Events

On August 4, 2010, the Company filed a registration statement on Form S-4 that set forth the terms and conditions under which the Company offered to exchange up to $215 million aggregate principal amount of 10.5% Senior Notes due 2018, which have been registered under the Securities Act (the new notes), for an equal principal amount of outstanding unregistered 10.5% Senior Notes due 2018, which the Company issued on April 9, 2010 (the old notes). The terms of the new notes are substantially identical to the terms of the old notes (including principal amount, interest rate, maturity and redemption rights), except that the new notes are registered under the Securities Act and will bear a separate CUSIP number, and the transfer restrictions, registration rights and related special interest terms applicable to the old notes will not apply to the new notes. The new notes will evidence the same indebtedness as the old notes which they will replace, and both the old notes and the new notes are governed by the same indenture. The Form S-4 (as amended) went effective, and the exchange began, on October 15, 2010.

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

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MagnaChip Semiconductor LLC and Subsidiaries

Notes to Consolidated Financial Statements - (Continued)

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

19. Condensed Consolidating Financial Information

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

The senior notes are structurally subordinated to the creditors of the Company s principal manufacturing and selling subsidiary, MagnaChip Semiconductor, Ltd. (Korea), which accounts for substantially all of the Company s net sales and assets.

Below are condensed consolidating balance sheets as of September 30, 2010 and December 31, 2009, condensed consolidating statements of operations for the three months and nine months ended September 30, 2010 and September 27, 2009 and condensed consolidating statement of cash flows for the nine months ended September 30, 2010 and September 27, 2009 of those entities that guarantee the senior notes, those that do not, MagnaChip Semiconductor LLC, and the co-issuers.

For the purpose of the guarantor financial information, the investments in subsidiaries are accounted for under the equity method.

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MagnaChip Semiconductor LLC and Subsidiaries

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

Condensed Consolidating Balance Sheet

September 30, 2010

(Successor Company)

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

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

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MagnaChip Semiconductor LLC and Subsidiaries

Notes to Consolidated Financial Statements - (Continued)

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

Condensed Consolidating Balance Sheet

December 31, 2009

(Successor Company)

	MagnaChip Semiconductor LLC (Parent)	Co-Issuers	Non-Guarantors	Guarantors	Eliminations	Consolidated
Assets						
Current assets						
Cash and cash equivalents	$ 136	$ 24	$ 45,443	$ 19,322	$	$ 64,925
Accounts receivable, net			122,500	66,872	(115,139)	74,233
Inventories, net			59,914	4,098	(605)	63,407
Other receivables	710	718	7,061	3,617	(8,673)	3,433
Prepaid expenses	165	85	14,122	1,150	(2,897)	12,625
Short-term intercompany loan		95,000		95,000	(190,000)	
Other current assets	16	72,614	776	72,868	(142,841)	3,433
Total current assets	1,027	168,441	249,816	262,927	(460,155)	222,056
Property, plant and equipment, net			155,951	386		156,337
Intangible assets, net			49,459	699		50,158
Long-term prepaid expenses			22,576		(12,034)	10,542
Investment in subsidiaries	(608,843)	(690,259)		(517,520)	1,816,622	
Long-term intercompany loan	824,091	806,355		621,000	(2,251,446)	
Other non-current assets		234	5,753	8,251		14,238
Total Assets	$ 216,275	$ 284,771	$ 483,555	$ 375,743	$ (907,013)	$ 453,331
Liabilities and Unitholders Equity						
Current liabilities						
Accounts payable	$	$	$ 106,792	$ 67,975	$ (115,062)	$ 59,705
Other accounts payable	485	5,551	6,337	3,490	(8,673)	7,190
Accrued expenses	100	1,134	89,045	74,753	(142,918)	22,114
Short-term intercompany borrowings			95,000	95,000	(190,000)	
Current portion of long-term debt		618				618
Other current liabilities			2,935	3,899	(2,897)	3,937
Total current liabilities	585	7,303	300,109	245,117	(459,550)	93,564
Long-term borrowings		885,224	621,000	806,354	(2,251,446)	61,132
Accrued severance benefits, net			71,362	1,047		72,409
Other non-current liabilities			8,550	14,020	(12,034)	10,536

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

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MagnaChip Semiconductor LLC and Subsidiaries

Notes to Consolidated Financial Statements - (Continued)

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

Condensed Consolidating Statement of Operations

For the three months ended September 30, 2010

(Successor Company)

	MagnaChip Semiconductor LLC (Parent)	Co-Issuers	Non-Guarantors	Guarantors	Eliminations	Consolidated
Net sales	$	$	$ 209,580	$ 7,416	$ (7,548)	$ 209,448
Cost of sales			140,126	1,116	(1,109)	140,133
Gross profit			69,454	6,300	(6,439)	69,315
Selling, general and administrative expenses	140	373	16,293	2,795	(3,399)	16,202
Research and development expenses			24,023	2,138	(3,042)	23,119
Restructuring and impairment charges			442			442
Operating income (loss)	(140)	(373)	28,696	1,367	2	29,552
Other income (expense)		29,393	26,565	(21,558)		34,400
Income (loss) before income taxes, equity in earnings of related equity investment	(140)	29,020	55,261	(20,191)	2	63,952
Income tax expenses				2,457		2,457
Income (loss) before equity in earnings of related investment	(140)	29,020	55,261	(22,648)	2	61,495
Earnings of related investment	61,635	32,494		55,263	(149,392)	
Net Income	$ 61,495	$ 61,514	$ 55,261	$ 32,615	$ (149,390)	$ 61,495
Net Income attributable to common units	$ 61,495	$ 61,514	$ 55,261	$ 32,615	$ (149,390)	$ 61,495

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MagnaChip Semiconductor LLC and Subsidiaries

Notes to Consolidated Financial Statements - (Continued)

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

Condensed Consolidating Statement of Operations

For the nine months ended September 30, 2010

(Successor Company)

	MagnaChip Semiconductor LLC (Parent)	Co-Issuers	Non-Guarantors	Guarantors	Eliminations	Consolidated
Net sales	$	$	$ 579,239	$ 26,021	$ (21,627)	$ 583,633
Cost of sales			396,808	8,033	(4,415)	400,426
Gross profit			182,431	17,988	(17,212)	183,207
Selling, general and administrative expenses	1,318	898	49,148	7,549	(8,839)	50,074
Research and development expenses			66,880	6,420	(9,107)	64,193
Restructuring and impairment charges			1,045			1,045
Operating income (loss)	(1,318)	(898)	65,358	4,019	734	67,895
Other income (expense)	3,734	21,276	(30,181)	3,306		(1,865)
Income before income taxes, equity in earnings of related equity investment	2,416	20,378	35,177	7,325	734	66,030
Income tax expenses (benefits)			(1,947)	6,128		4,181
Income before equity in earnings of related investment	2,416	20,378	37,124	1,197	734	61,849
Earnings of related investment	59,433	38,903		37,412	(135,748)	
Net income	$ 61,849	$ 59,281	$ 37,124	$ 38,609	$ (135,014)	$ 61,849
Net income attributable to common units	$ 61,849	$ 59,281	$ 37,124	$ 38,609	$ (135,014)	$ 61,849

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MagnaChip Semiconductor LLC and Subsidiaries

Notes to Consolidated Financial Statements - (Continued)

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

Condensed Consolidating Statement of Operations

For the three months ended September 27, 2009

(Predecessor Company)

	MagnaChip Semiconductor LLC (Parent)	Co-Issuers	Non-Guarantors	Guarantors	Eliminations	Consolidated
Net sales	$	$	$ 151,181	$ 50,308	$ (44,862)	$ 156,627
Cost of sales			103,726	41,733	(40,994)	104,465
Gross profit			47,455	8,575	(3,868)	52,162
Selling, general and administrative expenses	81	23	15,783	2,521	(1,233)	17,175
Research and development expenses			18,284	2,878	(3,458)	17,704
Operating income (loss)	(81)	(23)	13,388	3,176	823	17,283
Other income (expense)	(1,012)	22,147	29,383	(11,846)		38,672
Income (loss) before income taxes, equity in earnings of related equity investment	(1,093)	22,124	42,771	(8,670)	823	55,955
Income tax expenses			36	2,398		2,434
Income (loss) before equity in earnings of related investment	(1,093)	22,124	42,735	(11,068)	823	53,521
Earnings of related investment	63,530	43,434		53,421	(160,385)	
Income from continuing operations	62,437	65,558	42,735	42,353	(159,562)	53,521
Income (loss) from discontinued operation, net of tax			10,709	(1,611)	(182)	8,916
Net income	$ 62,437	$ 65,558	$ 53,444	$ 40,742	$ (159,744)	$ 62,437
Income from continuing operations attributable to common units	$ 62,437	$ 65,558	$ 42,735	$ 42,353	$ (159,562)	$ 53,521
Net income attributable to common units	$ 62,437	$ 65,558	$ 53,444	$ 40,742	$ (159,744)	$ 62,437

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MagnaChip Semiconductor LLC and Subsidiaries

Notes to Consolidated Financial Statements - (Continued)

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

Condensed Consolidating Statement of Operations

For the nine months ended September 27, 2009

(Predecessor Company)

	MagnaChip Semiconductor LLC (Parent)	Co-Issuers	Non-Guarantors	Guarantors	Eliminations	Consolidated
Net sales	$	$	$ 384,826	$ 142,016	$ (129,063)	$ 397,779
Cost of sales			274,785	117,879	(116,277)	276,387
Gross profit			110,041	24,137	(12,786)	121,392
Selling, general and administrative expenses	2,742	64	42,485	9,131	(3,611)	50,811
Research and development expenses			51,622	8,787	(9,477)	50,932
Restructuring and impairment charges				439		439
Operating income (loss)	(2,742)	(64)	15,934	5,780	302	19,210
Other income (expense)	(1,012)	24,632	(13,646)	(8,553)		1,421
Income (loss) before income taxes, equity in earnings of related equity investment	(3,754)	24,568	2,288	(2,773)	302	20,631
Income tax expenses			88	7,351		7,439
Income (loss) before equity in earnings of related investment	(3,754)	24,568	2,200	(10,124)	302	13,192
Earnings of related investment	24,111	1,343		11,163	(36,617)	
Income from continuing operation	20,357	25,911	2,200	1,039	(36,315)	13,192
Income (loss) from discontinued operation, net of taxes			9,093	(1,566)	(362)	7,165
Net income (loss)	$ 20,357	$ 25,911	$ 11,293	$ (527)	$ (36,677)	$ 20,357
Dividends accrued on preferred units	6,317					6,317
Income from continuing operations attributable to common units	$ 14,040	$ 25,911	$ 2,200	$ 1,039	$ (36,315)	$ 6,875

Net income (loss) attributable to common units	$ 14,040	$ 25,911	$ 11,293	$ (527)	$ (36,677)	$ 14,040

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MagnaChip Semiconductor LLC and Subsidiaries

Notes to Consolidated Financial Statements - (Continued)

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

Condensed Consolidating Statement of Cash Flows

For the nine months ended September 30, 2010

(Successor Company)

	MagnaChip Semiconductor LLC (Parent)	Co-Issuers	Non-Guarantors	Guarantors	Eliminations	Consolidated
Cash flow from operating activities						
Net income	$ 61,849	$ 59,281	$ 37,124	$ 38,609	$ (135,014)	$ 61,849
Adjustments to reconcile net income to net cash provided by (used in) operating activities						
Depreciation and amortization			44,120	212		44,332
Provision for severance benefits			14,889	234		15,123
Amortization of debt issuance costs and original issue discount.		687				687
Loss (gain) on foreign currency translation, net		9,195	(17,754)	(8,145)		(16,704)
Loss (gain) on disposal of property, plant and equipment, net			(8)	1		(7)
Loss on disposal of intangible assets, net			9			9
Restructuring and impairment charges			1,045			1,045
Unit-based compensation	484		3,068	520		4,072
Cash used for reorganization items			51	1,522		1,573
Earnings of related investment	(59,433)	(38,903)		(37,412)	135,748	
Other	13	(14)	1,048	(96)		951
Changes in operating assets and liabilities						
Accounts receivable, net			(53,706)	8,013	(16,078)	(61,771)
Inventories, net			(3,342)	4,296	(761)	193
Other receivables			(12,785)	566	10,990	(1,229)
Deferred tax assets				1,133		1,133
Accounts payable			21,323	(26,979)	16,056	10,400
Other accounts payable	7,371	2,515	8,248	(812)	(10,990)	6,332
Accrued expenses	11	11,577	50,141	47,228	(86,863)	22,094
Long term other payable				413	(2,019)	(1,606)
Other current assets	(6,618)	(47,455)	5,067	(38,101)	86,886	(221)
Other current liabilities			341	175		516
Payment of severance benefits			(4,520)	(187)		(4,707)
Other			1,888	(2,752)		(864)
Net cash provided by (used in) operating activities before reorganization items	3,677	(3,117)	96,247	(11,562)	(2,045)	83,200

Cash used for reorganization items			(51)	(1,522)		(1,573)
Net cash provided by (used in) operating activities	3,677	(3,117)	96,196	(13,084)	(2,045)	81,627
Cash flows from investing activities						
Proceeds from disposal of plant, property and equipment			8	2		10
Purchases of plant, property and equipment			(29,702)	(37)		(29,739)
Payment for intellectual property registration			(437)			(437)
Decrease in short-term financial instruments				329		329
Decrease in guarantee deposits			219	792		1,011
Collection of long-term intercompany loans	126,953				(126,953)	
Other			(725)	(82)		(807)
Net cash provided by (used in) investing activities	126,953		(30,637)	1,004	(126,953)	(29,633)
Cash flow from financing activities						
Proceeds from issuance of senior notes		246,685				246,685
Debt issuance costs paid		(8,313)				(8,313)
Repayment of long-term borrowings		(188,703)			126,953	(61,750)
Repayment of obligations under capital lease			(1,812)			(1,812)
Distribution to unitholders	(130,697)					(130,697)
Net cash provided by (used in) financing activities	(130,697)	49,669	(1,812)		126,953	44,113
Effect of exchanges rate on cash and cash equivalents			(3,038)	1,390	2,045	397
Net increase (decrease) in cash and cash equivalents	(67)	46,552	60,709	(10,690)		96,504
Cash and cash equivalents						
Beginning of the period	136	24	45,443	19,322		64,925
End of the period	$ 69	$ 46,576	$ 106,152	$ 8,632	$	$ 161,429

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MagnaChip Semiconductor LLC and Subsidiaries

Notes to Consolidated Financial Statements - (Continued)

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

Condensed Consolidating Statement of Cash Flows

For the nine months ended September 27, 2009

(Predecessor Company)

	MagnaChip Semiconductor LLC (Parent)	Co-Issuers	Non-Guarantors	Guarantors	Eliminations	Consolidated
Cash flow from operating activities						
Net income (loss)	$ 20,357	$ 25,911	$ 11,293	$ (527)	$ (36,677)	$ 20,357
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities						
Depreciation and amortization			32,815	1,793		34,608
Provision for severance benefits			7,556	275		7,831
Amortization of debt issuance costs		621	135			756
Loss (gain) on foreign currency translation, net		(9,427)	(35,695)	8,940		(36,182)
Loss (gain) on disposal of property, plant and equipment			(244)	328		84
Loss on disposal of intangible assets, net			(9,223)	84		(9,139)
Unit-based compensation			197	22		219
Cash used for reorganization items				2		2
Noncash reorganization items	1,012		1,021	2,440		4,473
Earnings of related investment	(24,111)	(1,343)		(11,163)	36,617	
Other		1	1,406	590		1,997
Changes in operating assets and liabilities						
Accounts receivable, net			(31,320)	(11,709)	25,068	(17,961)
Inventories, net			(2,781)	877	26	(1,878)
Other receivables			(782)	3,261	(2,934)	(455)
Deferred tax assets				1,869	5	1,874
Accounts payable			24,260	7,494	(25,068)	6,686
Other accounts payable	2,767		(17,433)	198	2,934	(11,534)
Accrued expenses	(41)	23,636	40,763	38,100	(74,908)	27,550
Long term other payable			77	454	(77)	454
Other current assets	(200)	(39,327)	9,923	(36,776)	71,253	4,873
Other current liabilities		(95)	748	(4,236)	3,643	60
Payment of severance benefits			(3,776)	(309)		(4,085)
Other			856	1,037	(2,369)	(476)
Net cash provided by (used in) operating activities before reorganization items	(216)	(23)	29,796	3,044	(2,487)	30,114
Cash used for reorganization items				(2)		(2)

Net cash provided by (used in) operating activities	(216)	(23)	29,796	3,042	(2,487)	30,112
Cash flows from investing activities						
Proceeds from disposal of plant, property and equipment			264	298	(263)	299
Proceeds from disposal of intangible assets			9,282	1		9,283
Purchases of plant, property and equipment			(7,507)	(20)	257	(7,270)
Payment for intellectual property registration			(317)			(317)
Increase in restricted cash			(34,067)			(34,067)
Increase in short-term financial instruments				(326)		(326)
Decrease in guarantee deposits			564	68		632
Other			(85)	1,823	(1,763)	(25)
Net cash provided by (used in) investing activities			(31,866)	1,844	(1,769)	(31,791)
Cash flow from financing activities						
Repayment of long-term borrowings				(1,763)	1,763	
Net cash used in financing activities				(1,763)	1,763	
Effect of exchanges rate on cash and cash equivalents			3,577	(3,023)	2,493	3,047
Net increase (decrease) in cash and cash equivalents	(216)	(23)	1,507	100		1,368
Cash and cash equivalents						
Beginning of the period	216	56	205	3,560		4,037
End of the period	$	$ 33	$ 1,712	$ 3,660	$	$ 5,405

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

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 the Risk Factors and elsewhere 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.

Overview

We are a Korea-based designer and manufacturer of analog and mixed-signal semiconductor products for high-volume consumer applications. We believe we have one of the broadest and deepest analog and mixed-signal semiconductor technology platforms in the industry, supported by our 30-year operating history, large portfolio of approximately 2,675 novel registered patents and 875 pending novel patent applications and extensive engineering and manufacturing process expertise. Our business is comprised of three key segments: Display Solutions, Power Solutions and Semiconductor Manufacturing Services. Our Display Solutions products include display drivers that cover a wide range of flat panel displays and multimedia devices. Our Power Solutions products include discrete and integrated circuit solutions for power management in high-volume consumer applications. Our 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.

Our wide variety of analog and mixed-signal semiconductor products and manufacturing services combined with our deep technology platform allows us to address multiple high-growth end markets and to rapidly develop and introduce new products and services in response to market demands. Our substantial manufacturing operations in Korea and design centers in Korea and Japan place us at the core of the global consumer electronics supply chain. We believe this enables us to quickly and efficiently respond to our customers needs and allows us to better service and capture additional demand from existing and new customers.

To maintain and increase our profitability, we must accurately forecast trends in demand for consumer electronics products that incorporate semiconductor products we produce. We must understand our customers needs as well as the likely end market trends and demand in the markets they serve. We must balance the likely manufacturing utilization demand of our product businesses and foundry business to optimize our facilities utilization. We must also invest in relevant research and development activities and manufacturing capacity and purchase necessary materials on a timely basis to meet our customers demand while maintaining our target margins and cash flow.

The semiconductor markets in which we participate are highly competitive. The prices of our products tend to decrease regularly over their useful lives, and such price decreases can be significant as new generations of products are introduced by us or our competitors. We strive to offset the impact of declining selling prices for existing products through cost reductions and the introduction of new products that command selling prices above the average selling price of our existing products. In addition, we seek to manage our inventories and manufacturing capacity so as to mitigate the risk of losses from product obsolescence.

Demand for our products and services is driven primarily by overall demand for consumer electronics products and can be adversely affected by periods of weak consumer spending or by market share losses by our customers. To mitigate the impact of market volatility on our business, we seek to address market segments and geographies with higher growth rates than the overall consumer electronics industry. For example, in recent years, we have experienced increasing demand from OEMs and consumers in China and Taiwan relative to overall demand for our products and services. We expect to derive a meaningful portion of our growth from growing demand in such markets. We also expect that new competitors will emerge in these markets that may place increased pressure on the pricing for our products and services, but we believe that we will be able to successfully compete based upon our higher quality products and services and that the impact from the increased competition will be more than offset by increased demand arising from such markets. Further, we believe we are well-positioned competitively as a result of our long operating history, existing manufacturing capacity and our Korea-based operations.

Within our Display Solutions and Power Solutions segments, net sales are driven by design wins in which we or another company is selected by an electronics OEM or other potential customer to supply its demand for a particular product. A customer will often have more than one supplier designed in to multi-source components for a particular product line. Once designed in, we often specify the pricing of a particular product for a set period of time, with periodic discussions and renegotiations of pricing with our customers. In any given period, our net sales depend heavily upon the end-market demand for the goods in which our products are used, the inventory levels maintained by our customers and in some cases, allocation of demand for components for a particular product among selected qualified suppliers.

Within the Semiconductor Manufacturing Services business, net sales are driven by customers decisions on which manufacturing services provider to use for a particular product. Most of our semiconductor manufacturing services customers are fabless and depend upon service providers like us to manufacture their products. A customer will often have more than one supplier of manufacturing services; however, they tend to allocate a majority of manufacturing volume to one of their suppliers. We strive to be the primary supplier of manufacturing services to our customers. Once selected as a primary supplier, we often specify the pricing of a particular service on a per wafer basis for a set period of time, with periodic discussions and renegotiations of pricing with our customers. In any given period, our net sales depend heavily upon the end-market demand for the goods in which the products we manufacture for customers are used, the inventory levels maintained by our customers and in some cases, allocation of demand for manufacturing services among selected qualified suppliers.

In contrast to fabless semiconductor companies, our internal manufacturing capacity provides us with greater control over manufacturing costs and the ability to implement process and production improvements which can favorably impact gross profit margins. Our internal manufacturing capacity also allows for better control over delivery schedules, improved consistency over product quality and reliability and improved ability to protect intellectual property from misappropriation. However, having internal manufacturing capacity exposes us to the risk of under-utilization of manufacturing capacity which results in lower gross profit margins, particularly during downturns in the semiconductor industry.

Our products and services require investments in capital equipment. Analog and mixed-signal manufacturing facilities and processes are typically distinguished by the design and process implementation expertise rather than the use of the most advanced equipment. These processes also tend to migrate more slowly to smaller geometries due to technological barriers and increased costs. For example, some of our products use high-voltage technology that requires larger geometries and that may not migrate to smaller geometries for several years, if at all. Additionally, the performance of many of our products is not necessarily dependent on geometry. As a result, our manufacturing base and strategy does not require substantial investment in leading edge process equipment, allowing us to utilize our facilities and equipment over an extended period of time with moderate required capital investments. Generally, incremental capacity expansions in our segment of the market result in more moderate industry capacity expansion as compared to leading edge processes. As a result, this market, and we, specifically, are less likely to experience significant industry overcapacity, which can cause product prices to plunge dramatically. In general, we seek to invest in manufacturing capacity that can be used for multiple high-value applications over an extended period of time. We believe this capital investment strategy enables us to optimize our capital investments and facilitates deeper and more diversified product and service offerings.

Our success going forward will depend upon our ability to adapt to future challenges such as the emergence of new competitors for our products and services or the consolidation of current competitors. Additionally, we must innovate to remain ahead of, or at least rapidly adapt to, technological breakthroughs that may lead to a significant change in the technology necessary to deliver our products and services. We believe that our established relationships and close collaboration with leading customers enhance our visibility into new product opportunities, market and technology trends and improve our ability to meet these challenges successfully. In our Semiconductor Manufacturing Services business, we strive to maintain competitiveness and our position as a primary manufacturing services provider to our customers by offering high value added, unique processes, high flexibility and excellent service.

Controls and Procedures

In connection with the audits of our consolidated financial statements for the ten-month period ended October 25, 2009 and two-month period ended December 31, 2009, our independent registered public accounting firm has reported two control deficiencies which represent a material weakness in our internal control over financial reporting. The two control deficiencies that our independent registered public accounting firm reported to our board of directors (as we then did not have a separate audit committee), are that we do not have a sufficient number of financial personnel with requisite financial accounting experience, and that our internal controls over non-routine transactions are not effective to ensure that accounting considerations are identified and appropriately recorded. We have identified and are taking steps intended to remediate this material weakness. See Item 4. Controls and Procedures Management Remediation Initiatives .

Recent Changes to Our Business

Beginning in the second half of 2008, we began to take steps to refocus our business strategy, enhance our operating efficiency and improve our cash flow and profitability. We restructured our continuing operations by reducing our cost structure, increasing our focus on our core, profitable technologies, products and customers, and implemented various initiatives to lower our manufacturing costs and improve our gross margins. In connection with these initiatives, we closed our Imaging Solutions business segment, which had been a source of substantial ongoing operating losses amounting to $91.5 million and $51.7 million in 2008 and 2007, respectively, and which required substantial ongoing capital investment. Our employee headcount has declined from 3,648 as of the end of July 2008 to 3,156 at the end of 2009. As a result of these actions, we were able to reduce our costs and improve our margins. Although our goal is to continue to focus on lower costs and improved margins on an ongoing basis, we expect that the financial benefits derived from our ongoing efforts will be incremental and any such benefits may be offset by other negative factors affecting our operations.

On June 12, 2009, we filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code in order to address the growing demands on our cash flow resulting from our long-term indebtedness. Our plan of reorganization went effective and we emerged from the reorganization proceeding on November 9, 2009. As a result of the plan of reorganization, our indebtedness was reduced from $845.0 million immediately prior to the effectiveness of our plan of reorganization to $61.8 million as of December 31, 2009.

During the first half of 2009, we instituted company-wide voluntary salary reductions, which resulted in one-time savings for our continuing operations during 2009 and which in turn contributed to the decrease in salaries and related expenses in 2009 relative to 2008. In June 2009, we returned to our employees one-third of the amount by which their salaries had been reduced. We reinstated salaries to prior levels in July 2009.

In connection with our emergence from reorganization proceedings, we implemented fresh-start accounting in accordance with ASC 852 governing reorganizations. We elected to adopt a convenience date of October 25, 2009 (a month end for our financial reporting purposes) for application of fresh-start accounting. In accordance with ASC 852 governing reorganizations, we recorded largely non-cash reorganization income and expense items directly associated with our reorganization proceedings including professional fees, the revaluation of assets, the effects of our reorganization plan and fresh-start accounting, and write-off of debt issuance costs.

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In implementing fresh-start accounting, we re-measured our asset values and stated all liabilities, other than deferred taxes and severance benefits, at fair value. Our reorganization value was determined based on consideration of numerous factors and various valuation methodologies, including discounted cash flows, believed by management and our financial advisors to be representative of our business and industry. In addition, under fresh-start accounting, accumulated deficit and accumulated other comprehensive income were eliminated.

Under fresh-start accounting, our inventory, net, and intangible assets, net, increased by $17.9 million and $28.3 million, respectively, and property, plant and equipment decreased by $13.9 million, in each case to reflect the estimated fair value as of our emergence from our reorganization proceedings. As a result, our cost of sales for the two-month period ended December 31, 2009 included $17.2 million of additional costs from the inventory step-up. The increase in intangible assets results in higher amortization expenses following our emergence from our reorganization proceedings which are included in cost of sales, selling general and administrative expenses and research and development expenses. The decrease in property, plant and equipment results in lower depreciation expenses, which are included in cost of sales, selling general and administrative expenses and research and development expenses following our emergence from our reorganization proceedings.

As a result of the application of fresh-start accounting, our consolidated financial statements prior to and including October 25, 2009 represent the operations of our pre-reorganization predecessor company and are presented separately from the consolidated financial statements of our post-reorganization successor company. For the purposes of our discussion and analysis of our results of operations, we often refer to results of operations for 2009 on a combined basis, including both the period before (predecessor company) and after (successor company) effectiveness of the plan of reorganization. We believe this comparison provides useful information as the principal impact of the plan of reorganization was on our debt and capital structure and not on our core operations; and many of the steps taken to improve our core operations had commenced prior to the commencement of our reorganization proceedings.

On April 9, 2010, we completed the sale of $250 million in aggregate principal amount of 10.500% senior notes due 2018. Of the $238.4 million of net proceeds, $130.7 million was used to make a distribution to our unitholders and $61.6 million was used to repay all outstanding borrowings under our term loan. The remaining proceeds of $46.1 million were retained to fund working capital and for general corporate purposes. As a result of the higher level of indebtedness from our senior note offering, our interest expense will increase above that which was reported for the nine months ended September 30, 2010 to approximately $20.8 million per nine months period.

Business Segments

We report in three separate business segments because we derive our revenues from three principal business lines: Display Solutions, Power Solutions, and Semiconductor Manufacturing Services. We have identified these segments based on how we allocate resources and assess our performance.

Display Solutions: Our Display Solutions products include source and gate drivers and timing controllers that cover a wide range of flat panel displays used in LCD televisions and LED televisions and displays, mobile PCs and mobile communications and entertainment devices. Our display solutions support the industry s most advanced display technologies, such as LTPS and AMOLED, as well as high-volume display technologies such as TFT. Our Display Solutions business represented 40.3% and 52.6% of our net sales for the nine months ended September 30, 2010 and September 27, 2009, respectively.

Power Solutions: Our Power Solutions segment produces power management semiconductor products including discrete and integrated circuit solutions for power management in high-volume consumer applications. These products include MOSFETs, LED drivers, DC-DC converters, analog switches and linear regulators, such as low-dropout regulators, or LDOs. Our power solutions products are designed for applications such as mobile phones, LCD televisions, and desktop computers, and allow electronics manufacturers to achieve specific design goals of high efficiency and low standby power consumption. Going forward, we expect to continue to expand our power management product portfolio. Our Power Solutions business represented 6.7% and 1.6% of our net sales for nine months ended September 30, 2010 and September 27, 2009, respectively.

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Semiconductor Manufacturing Services: Our Semiconductor Manufacturing Services segment provides specialty analog and mixed-signal foundry services to fabless semiconductor companies that serve the consumer, computing and wireless end markets. We manufacture wafers based on our customers product designs. We do not market these products directly to end customers but rather supply manufactured wafers and products to our customers to market to their end customers. We offer approximately 200 process flows to our manufacturing services customers. We also often partner with key customers to jointly develop or customize specialized processes that enable our customers to improve their products and allow us to develop unique manufacturing expertise. Our manufacturing services are targeted at customers who require differentiated, specialty analog and mixed-signal process technologies such as high voltage CMOS, embedded memory and power. These customers typically serve high-growth and high-volume applications in the consumer, computing and wireless end markets. Our Semiconductor Manufacturing Services business represented 52.8% and 45.1% of our net sales for the nine months ended September 30, 2010 and September 27, 2009, respectively.

Factors Affecting Our Results of Operations

Net Sales. We derive a majority of our sales (net of sales returns and allowances) from three reportable segments: Display Solutions, Power Solutions and Semiconductor Manufacturing Services. Our product inventory is primarily located in Korea and is available for drop shipment globally. Outside of Korea, we maintain limited product inventory, and our sales representatives generally relay orders to our factories in Korea for fulfillment. We have strategically located our sales and technical support offices near concentrations of major customers. Our sales offices are located in Hong Kong, Japan, Korea, Taiwan, China, the United Kingdom and the United States. Our network of authorized agents and distributors consists of agents in the United States and Europe and distributors and agents in the Asia Pacific region. Our net sales from All other consist principally of rental income.

We recognize revenue when risk and reward of ownership passes to the customer either upon shipment, upon product delivery at the customer s location or upon cu