

MAGNACHIP SEMICONDUCTOR Corp
Form 10-Q
February 12, 2015
Table of Contents

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 June 30, 2014

or

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

For the transition period from _____ to _____.

Commission File Number: 001-34791

MagnaChip Semiconductor Corporation
(Exact name of registrant as specified in its charter)

Delaware **83-0406195**
(State or other jurisdiction of **(I.R.S. Employer**
incorporation or organization) **Identification No.)**
c/o MagnaChip Semiconductor S.A.

1, Allée Scheffer, L-2520

Luxembourg, Grand Duchy of Luxembourg

(352) 45-62-62

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

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

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

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

Large accelerated filer Accelerated filer

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

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

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

As of January 31, 2015, the registrant had 34,056,468 shares of common stock outstanding.

Table of Contents

Explanatory Note

This Quarterly Report on Form 10-Q for the period ended June 30, 2014 (this Quarterly Report) is being filed by MagnaChip Semiconductor Corporation (we, our, us, the Company, or MagnaChip) concurrently with the filing of the Company's Annual Report on Form 10-K for the year ended December 31, 2013, which was filed with the Securities and Exchange Commission (the SEC) on February 12, 2015 (the 2013 Form 10-K). The 2013 Form 10-K contains audited financial statements of the Company for the years ended December 31, 2013, 2012 and 2011.

The Company filed a Current Report on Form 8-K with the SEC on March 11, 2014 disclosing the determination of the Audit Committee of the Company's Board of Directors that certain of the Company's previously issued annual audited and interim unaudited financial statements contained in its historical Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q should no longer be relied upon.

In the 2013 Form 10-K, the Company restated and corrected the following financial statements of the Company (the Restatement): (i) the audited consolidated balance sheet as of December 31, 2012 and 2011, and consolidated statements of operations, comprehensive income, changes in stockholders' equity and cash flows for each of the years ended December 31, 2012 and 2011; and (ii) the five-year selected financial data presented in the 2013 Form 10-K.

The 2013 Form 10-K was filed by the Company in lieu of the Company separately filing with the SEC amendments to its previously filed Annual Reports on Form 10-K for each of the years ended December 31, 2012 and 2011.

The unaudited financial statements for the three and six months ended June 30, 2013 contained in this Quarterly Report are presented on a restated basis and are consistent with those contained in the 2013 Form 10-K. The Company has not separately amended, and does not intend to amend, its Quarterly Reports on Form 10-Q for the periods ended on or prior to September 30, 2013.

For more information on the matters that have led to the restatement and data previously reported, see Note 2. Restatement of Consolidated Financial Statements to our consolidated financial statements contained in the 2013 Form 10-K and our consolidated financial statements contained herein.

Table of Contents

MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

TABLE OF CONTENTS

	Page No.
<u>PART I FINANCIAL INFORMATION</u>	4
Item 1. <u>Interim Consolidated Financial Statements (Unaudited)</u>	4
<u>MagnaChip Semiconductor Corporation and Subsidiaries Consolidated Balance Sheets as of June 30, 2014 and December 31, 2013</u>	4
<u>MagnaChip Semiconductor Corporation and Subsidiaries Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2014 and 2013 (As Restated)</u>	5
<u>MagnaChip Semiconductor Corporation and Subsidiaries Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2014 and 2013 (As Restated)</u>	6
<u>MagnaChip Semiconductor Corporation and Subsidiaries Consolidated Statements of Changes in Stockholders' Equity for the Six Months Ended June 30, 2014 and 2013 (As Restated)</u>	7
<u>MagnaChip Semiconductor Corporation and Subsidiaries Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2014 and 2013 (As Restated)</u>	8
<u>MagnaChip Semiconductor Corporation and Subsidiaries Notes to Consolidated Financial Statements</u>	9
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	33
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	53
Item 4. <u>Controls and Procedures</u>	54
<u>PART II OTHER INFORMATION</u>	55
Item 1. <u>Legal Proceedings</u>	55
Item 1A. <u>Risk Factors</u>	55
Item 6. <u>Exhibits</u>	56
<u>SIGNATURES</u>	

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

	June 30, 2014	December 31, 2013
Assets		
Current assets		
Cash and cash equivalents	\$ 140,997	\$ 153,606
Restricted cash		4
Accounts receivable, net	72,108	78,898
Inventories, net	89,976	74,698
Other receivables	5,513	6,011
Prepaid expenses	11,261	9,194
Current deferred income tax assets	1,028	1,348
Other current assets	13,455	10,403
Total current assets	334,338	334,162
Property, plant and equipment, net	263,700	254,297
Intangible assets, net	2,849	3,111
Long-term prepaid expenses	13,683	16,405
Deferred income tax assets	619	896
Other non-current assets	15,165	16,319
Total assets	\$ 630,354	\$ 625,190
Liabilities and Stockholders Equity		
Current liabilities		
Accounts payable	\$ 81,525	\$ 75,059
Other accounts payable	15,259	15,670
Accrued expenses	77,864	65,494
Other current liabilities	6,853	5,872
Total current liabilities	181,501	162,095
Long-term borrowings, net	223,978	223,923
Accrued severance benefits, net	145,711	134,172
Other non-current liabilities	19,539	23,459

Total liabilities	570,729	543,649
Commitments and Contingencies (Note 17)		
Stockholders' equity		
Common stock, \$0.01 par value, 150,000,000 shares authorized, 40,635,128 shares issued and 34,056,363 outstanding at June 30, 2014 and 40,627,131 shares issued and 34,048,366 outstanding at December 31, 2013	406	406
Additional paid-in capital	117,361	116,222
Retained earnings	99,294	105,889
Treasury stock, 6,578,765 shares at June 30, 2014 and December 31, 2013	(90,918)	(90,918)
Accumulated other comprehensive loss	(66,518)	(50,058)
Total stockholders' equity	59,625	81,541
Total liabilities and stockholders' equity	\$ 630,354	\$ 625,190

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

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013		2013	
	June 30,	(As	June 30,	(As
	2014	Restated)	2014	Restated)
Net sales	\$ 172,070	\$ 193,533	\$ 336,234	\$ 387,855
Cost of sales	136,613	148,292	260,500	284,379
Gross profit	35,457	45,241	75,734	103,476
Selling, general and administrative expenses	30,746	20,951	55,773	41,759
Research and development expenses	24,059	21,625	47,196	42,640
Restructuring and impairment charges				2,446
Operating income (loss)	(19,348)	2,665	(27,235)	16,631
Other income (expenses)				
Interest expense, net	(4,007)	(5,879)	(8,077)	(11,728)
Foreign currency gain (loss), net	38,424	(22,145)	29,018	(45,603)
Other	597	327	1,158	680
	35,014	(27,697)	22,099	(56,651)
Income (loss) before income taxes	15,666	(25,032)	(5,136)	(40,020)
Income tax expenses (benefits)	656	(364)	1,459	2,237
Net income (loss)	\$ 15,010	\$ (24,668)	\$ (6,595)	\$ (42,257)
Earnings (loss) per common share				
Basic	\$ 0.44	\$ (0.70)	\$ (0.19)	\$ (1.19)
Diluted	\$ 0.43	\$ (0.70)	\$ (0.19)	\$ (1.19)
Weighted average number of shares				
Basic	34,056,359	35,474,001	34,054,626	35,506,527
Diluted	35,177,915	35,474,001	34,054,626	35,506,527

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

Table of Contents**MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(Unaudited; in thousands of US dollars)**

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
		(As Restated)		(As Restated)
Net income (loss)	\$ 15,010	\$ (24,668)	\$ (6,595)	\$ (42,257)
Other comprehensive income (loss) :				
Foreign currency translation adjustments	(25,955)	14,473	(19,336)	28,206
Derivative adjustments				
Fair valuation of derivatives	8,002	(6,339)	6,201	(11,821)
Reclassification adjustment for gain on derivatives included in net income (loss)	(2,647)	(5)	(2,644)	(255)
Investment adjustments				
Unrealized gain on investments	925	175	1,201	495
Reclassification adjustment for gain on investments included in net income (loss)	(1,882)		(1,882)	
Total comprehensive loss	\$ (6,547)	\$ (16,364)	\$ (23,055)	\$ (25,632)

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

Table of Contents

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

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

	Common Stock		Additional	Retained	Treasury	Accumulated	
	Shares	Amount	Paid-In	Earnings	Stock	Other	Total
			Capital			Comprehensive	
						Loss	
Six Months Ended							
June 30, 2014							
Balance at January 1, 2014	34,048,366	\$ 406	\$ 116,222	\$ 105,889	\$ (90,918)	\$ (50,058)	\$ 81,541
Stock-based compensation			1,072				1,072
Exercise of stock options	6,795		48				48
Exercise of warrants	1,202		19				19
Other comprehensive loss, net						(16,460)	(16,460)
Net loss				(6,595)			(6,595)
Balance at June 30, 2014	34,056,363	\$ 406	\$ 117,361	\$ 99,294	\$ (90,918)	\$ (66,518)	\$ 59,625
Six Months Ended							
June 30, 2013							
Balance at January 1, 2013 (As Restated)	35,635,357	\$ 396	\$ 102,409	\$ 170,092	\$ (39,918)	\$ (41,450)	\$ 191,529
Stock-based compensation			1,028				1,028
Exercise of stock options	246,673	2	1,817				1,819
Exercise of warrants	175,236	2	2,760				2,762
Acquisition of treasury stock	(375,884)				(6,000)		(6,000)
Other comprehensive income, net						16,625	16,625
Net loss				(42,257)			(42,257)
Balance at June 30, 2013 (As Restated)	35,681,382	\$ 400	\$ 108,014	\$ 127,835	\$ (45,918)	\$ (24,825)	\$ 165,506

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

Table of Contents

MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited; in thousands of US dollars)

	Six Months Ended	
	June 30,	June 30,
	2014	2013
		(As Restated)
Cash flows from operating activities		
Net loss	\$ (6,595)	\$ (42,257)
Adjustments to reconcile net loss to net cash provided by operating activities		