UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2020

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 **(State or other jurisdiction of incorporation or organization)**	**83-0406195** **(I.R.S. Employer 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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.01 per share	**MX**	**New York Stock Exchange**

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 every Interactive Data File required to be submitted 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 such files). ☒ Yes ☐ No

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

As of October 30, 2020, the registrant had 35,538,475 shares of common stock outstanding.

MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
TABLE OF CONTENTS

PART I—FINANCIAL INFORMATION

Item 1. Interim Consolidated Financial Statements (Unaudited)

MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (Unaudited)

	September 30, 2020	December 31, 2019
	(In thousands of U.S. dollars, except share data)	
Assets		
Current assets		
Cash and cash equivalents	$ 542,111	$ 151,657
Accounts receivable, net	57,772	47,447
Inventories, net	33,631	41,404
Other receivables	4,551	10,200
Prepaid expenses	8,265	9,003
Hedge collateral (Note 9)	9,650	9,820
Other current assets (Notes 10 and 18)	8,338	10,013
Current assets held for sale (Note 2)	—	99,821
Total current assets	664,318	379,365
Property, plant and equipment, net	77,489	73,068
Operating lease right-of-use assets	2,032	1,876
Intangible assets, net	2,877	2,769
Long-term prepaid expenses	2,138	5,757
Other non-current assets	8,598	9,059
Non-current assets held for sale (Note 2)	—	123,434
Total assets	$ 757,452	$ 595,328
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 40,497	$ 40,376
Other accounts payable	7,639	6,410
Accrued expenses (Note 8)	41,630	44,799
Accrued income taxes	14,038	1,569
Operating lease liabilities	1,390	1,625
Current portion of long-term borrowings, net	306,567	—
Other current liabilities (Note 10)	7,652	2,014
Current liabilities held for sale (Note 2)	—	37,040
Total current liabilities	419,413	133,833
Long-term borrowings, net	—	304,743
Accrued severance benefits, net	51,953	51,181
Other non-current liabilities	7,782	9,671
Non-current liabilities held for sale (Note 2)	—	110,881
Total liabilities	479,148	610,309
Commitments and contingencies (Note 18)		
Stockholders' equity		
Common stock, $0.01 par value, 150,000,000 shares authorized, 44,595,393 shares issued and 35,489,720 outstanding at September 30, 2020 and 43,851,991 shares issued and 34,800,312 outstanding at December 31, 2019	447	439
Additional paid-in capital	159,840	152,404
Retained earnings (deficit)	220,253	(58,131)
Treasury stock, 9,105,673 shares at September 30, 2020 and 9,051,679 shares at December 31, 2019, respectively	(107,649)	(107,033)
Accumulated other comprehensive income (loss)	5,413	(2,660)
Total stockholders' equity (deficit)	278,304	(14,981)
Total liabilities and stockholders' equity	$ 757,452	$ 595,328

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

MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	(In thousands of U.S. dollars, except share data)			
Revenues:				
Net sales – standard products business	$ 116,262	$ 139,273	$ 335,953	$ 371,543
Net sales – transitional Fab 3 foundry services	8,551	9,894	28,161	25,776
Total revenues	124,813	149,167	364,114	397,319
Cost of sales:				
Cost of sales – standard products business	87,494	104,018	245,917	285,643
Cost of sales – transitional Fab 3 foundry services	8,731	9,894	28,341	25,776
Total cost of sales	96,225	113,912	274,258	311,419
Gross profit	28,588	35,255	89,856	85,900
Operating expenses:				
Selling, general and administrative expenses	12,888	10,686	37,398	33,817
Research and development expenses	12,477	10,233	34,094	34,049
Other charges	—	—	554	—
Total operating expenses	25,365	20,919	72,046	67,866
Operating income	3,223	14,336	17,810	18,034
Interest expense	(5,485)	(5,539)	(16,522)	(16,615)
Foreign currency gain (loss), net	8,864	(21,985)	(13,638)	(44,166)
Loss on early extinguishment of long-term borrowings, net	—	—	—	(42)
Other income, net	714	678	2,343	1,816
Income (loss) from continuing operations before income tax expense	7,316	(12,510)	(10,007)	(40,973)
Income tax expense (benefit)	(1,145)	1,734	836	3,316
Income (loss) from continuing operations	8,461	(14,244)	(10,843)	(44,289)
Income (loss) from discontinued operations, net of tax	264,501	12,637	289,227	(963)
Net income (loss)	$ 272,962	$ (1,607)	$ 278,384	$ (45,252)
Basic earnings (loss) per common share—				
Continuing operations	$ 0.24	$ (0.41)	$ (0.31)	$ (1.29)
Discontinued operations	7.50	0.36	8.24	(0.03)
Total	$ 7.74	$ (0.05)	$ 7.93	$ (1.32)
Diluted earnings (loss) per common share—				
Continuing operations	$ 0.21	$ (0.41)	$ (0.31)	$ (1.29)
Discontinued operations	5.68	0.36	8.24	(0.03)
Total	$ 5.89	$ (0.05)	$ 7.93	$ (1.32)
Weighted average number of shares—				
Basic	35,280,864	34,357,745	35,089,479	34,266,513
Diluted	46,581,788	34,357,745	35,089,479	34,266,513

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

MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	(In thousands of U.S. dollars)			
Net income (loss)	$ 272,962	$ (1,607)	$ 278,384	$ (45,252)
Other comprehensive income (loss)				
Foreign currency translation adjustments	(6,517)	15,931	9,191	30,915
Derivative adjustments				
Fair valuation of derivatives	1,390	(2,803)	(1,410)	(5,703)
Reclassification adjustment for loss on derivatives included in net income (loss)	41	1,600	292	3,553
Total other comprehensive income (loss)	(5,086)	14,728	8,073	28,765
Total comprehensive income (loss)	$ 267,876	$ 13,121	$ 286,457	$ (16,487)

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 U.S. dollars, except share data)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings (Deficit)	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Three Months Ended September 30, 2020:							
Balance at June 30, 2020	35,143,033	$ 443	$155,591	$ (52,709)	$(107,649)	$ 10,499	$ 6,175
Stock-based compensation	—	—	2,226	—	—	—	2,226
Exercise of stock options	287,292	3	2,024	—	—	—	2,027
Settlement of restricted stock units	59,395	1	(1)	—	—	—	—
Other comprehensive loss, net	—	—	—	—	—	(5,086)	(5,086)
Net income	—	—	—	272,962	—	—	272,962
Balance at September 30, 2020	35,489,720	$ 447	$159,840	$220,253	$(107,649)	$ 5,413	$278,304
Three Months Ended September 30, 2019:							
Balance at June 30, 2019	34,240,181	$ 433	$144,188	$ (79,950)	$(106,514)	$ (6,073)	$ (47,916)
Stock-based compensation	—	—	479	—	—	—	479
Exercise of stock options	129,409	1	888	—	—	—	889
Settlement of restricted stock units	1,099	0	(0)	—	—	—	—
Other comprehensive income, net	—	—	—	—	—	14,728	14,728
Net loss	—	—	—	(1,607)	—	—	(1,607)
Balance at September 30, 2019	34,370,689	$ 434	$145,555	$ (81,557)	$(106,514)	$ 8,655	$ (33,427)

(In thousands of U.S. dollars, except share data)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings (Deficit)	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
Nine Months Ended September 30, 2020:							
Balance at December 31, 2019	34,800,312	$ 439	$152,404	$ (58,131)	$(107,033)	$ (2,660)	$ (14,981)
Stock-based compensation	—	—	4,754	—	—	—	4,754
Exercise of stock options	375,643	4	2,686	—	—	—	2,690
Settlement of restricted stock units	367,759	4	(4)	—	—	—	—
Acquisition of treasury stock	(53,994)	—	—	—	(616)	—	(616)
Other comprehensive income, net	—	—	—	—	—	8,073	8,073
Net income	—	—	—	278,384	—	—	278,384
Balance at September 30, 2020	35,489,720	$ 447	$159,840	$220,253	$(107,649)	$ 5,413	$278,304
Nine Months Ended September 30, 2019:							
Balance at December 31, 2018	34,441,232	$ 431	$142,600	$ (36,305)	$(103,926)	$ (20,110)	$ (17,310)
Stock-based compensation	—	—	1,920	—	—	—	1,920
Exercise of stock options	153,967	1	1,037	—	—	—	1,038
Settlement of restricted stock units	169,592	2	(2)	—	—	—	—
Acquisition of treasury stock	(394,102)	—	—	—	(2,588)	—	(2,588)
Other comprehensive income, net	—	—	—	—	—	28,765	28,765
Net loss	—	—	—	(45,252)	—	—	(45,252)
Balance at September 30, 2019	34,370,689	$ 434	$145,555	$ (81,557)	$(106,514)	$ 8,655	$ (33,427)

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

MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Nine Months Ended	
	September 30, 2020	September 30, 2019
	(In thousands of U.S. dollars)	
Cash flows from operating activities		
Net income (loss)	$ 278,384	$ (45,252)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization	13,333	24,661
Provision for severance benefits	14,150	10,491
Amortization of debt issuance costs and original issue discount	1,824	1,712
Loss on foreign currency, net	6,609	50,512
Restructuring and other charges	490	470
Provision for inventory reserves	4,079	9,255
Stock-based compensation	4,754	1,920
Loss on early extinguishment of long-term borrowings, net	—	42
Gain on sale of discontinued operations	(287,117)	—
Others, net	85	61
Changes in operating assets and liabilities		
Accounts receivable, net	(16,583)	(32,812)
Unbilled accounts receivable, net	14,260	14,208
Inventories	1,390	(15,576)
Other receivables	6,111	(4,814)
Other current assets	9,143	6,356
Accounts payable	(5,156)	27,585
Other accounts payable	(8,034)	(10,074)
Accrued expenses	1,991	3,831
Accrued income taxes	12,546	(583)
Other current liabilities	2,243	(5,766)
Other non-current liabilities	2,868	808
Payment of severance benefits	(5,888)	(6,195)
Others, net	59	(821)
Net cash provided by operating activities	51,541	30,019
Cash flows from investing activities		
Proceeds from settlement of hedge collateral	8,029	12,625
Payment of hedge collateral	(7,841)	(17,024)
Purchase of property, plant and equipment	(16,353)	(16,693)
Payment for intellectual property registration	(664)	(907)
Collection of guarantee deposits	891	539
Payment of guarantee deposits	(611)	(1,330)
Proceeds from sale of discontinued operations	350,553	—
Others, net	26	225
Net cash provided by (used in) investing activities	334,030	(22,565)
Cash flows from financing activities		
Repurchase of long-term borrowings	—	(1,175)
Proceeds from exercise of stock options	2,690	1,038
Acquisition of treasury stock	(1,021)	(2,588)
Repayment of financing related to water treatment facility arrangement	(402)	(415)
Repayment of principal portion of finance lease liabilities	(165)	(174)
Net cash provided by (used in) financing activities	1,102	(3,314)
Effect of exchange rates on cash and cash equivalents	3,781	(5,237)
Net increase (decrease) in cash and cash equivalents	390,454	(1,097)
Cash and cash equivalents		
Beginning of the period	151,657	132,438
End of the period	$ 542,111	$ 131,341
Supplemental cash flow information		
Cash paid for interest	$ 19,044	$ 19,071
Cash paid for income taxes	$ 2,573	$ 1,904
Non-cash investing activities		
Property, plant and equipment additions in other accounts payable	$ 3,865	$ 496

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

MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(TABULAR DOLLARS IN THOUSANDS, EXCEPT SHARE DATA)

1. Business, Basis of Presentation and Significant Accounting Policies

Business

MagnaChip Semiconductor Corporation (together with its subsidiaries, the "Company") is a designer and manufacturer of analog and mixed-signal semiconductor platform solutions for communications, Internet of Things ("IoT") applications, consumer, industrial and automotive applications. The Company provides technology platforms for analog, mixed signal, power, high voltage, non-volatile memory and Radio Frequency ("RF") applications.

On September 1, 2020 (the "Closing Date"), the Company completed the previously announced sale of the Company's Foundry Services Group business and its fabrication facility located in Cheongju known as "Fab 4" to Key Foundry Co., Ltd. (the "Buyer"), a Korean limited liability company and wholly owned subsidiary of Magnus Semiconductor, LLC, a Korean limited liability company ("Magnus"), in exchange for a purchase price equal to approximately $350.6 million, which included a positive working capital adjustment of approximately $5.9 million, pursuant to the terms of a business transfer agreement dated March 31, 2020 by and among the Company and Magnus (the "Business Transfer Agreement"). The purchase price was paid in a combination of U.S. Dollars in the amount of $46.5 million and Korean Won in the amount of approximately KRW 360.6 billion. In addition to the purchase price, the Buyer assumed all severance liabilities relating to the transferred employees, which had a value of approximately $100 million. The Buyer is a wholly owned subsidiary of Magnus, which was established by Alchemist Capital Partners Korea Co., Ltd. and Credian Partners, Inc. On April 20, 2020, Magnus assigned, and the Buyer assumed, all rights and obligations of Magnus under the Business Transfer Agreement. This divestiture of the Foundry Services Group business and Fab 4 allows the Company to strategically shift its operational focus to its standard products business. The Foundry Services Group was historically a reportable segment. The Foundry Services Group business was classified as discontinued operations in the Company's consolidated statements of operations and excluded from both continuing operations and segment results for all periods presented. Accordingly, commencing with the first quarter of 2020, the Company has one reportable segment: its standard products business, together with transitional foundry services associated with its fabrication facility located in Gumi, Korea, known as "Fab 3," that it expects to perform for the Buyer for a period of up to three years (the "Transitional Fab 3 Foundry Services"). The Company's standard products business includes its Display Solutions and Power Solutions business lines. The Company's Display Solutions products provide panel display solutions to major suppliers of large and small rigid and flexible panel displays, and mobile, automotive applications and home appliances. The Company's Power Solutions products include discrete and integrated circuit solutions for power management in communications, consumer and industrial applications.

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 ("U.S. GAAP"). These interim consolidated financial statements include normal recurring adjustments and the elimination of all intercompany accounts and transactions which are, in the opinion of management, necessary to provide a fair statement of the Company's financial condition and results of operations for the periods presented. These interim consolidated financial statements are presented in accordance with Accounting Standards Codification ("ASC") 270, "Interim Reporting" and, accordingly, do not include all of the information and note disclosures required by U.S. GAAP for complete financial statements, except for the changes below. The results of operations for the three and nine months ended September 30, 2020 are not necessarily indicative of the results to be expected for a full year or for any other periods.

The Company has reclassified certain prior year amounts to conform to the current year's presentation for discontinued operations to reflect the divestiture of its Foundry Services Group business and Fab 4. The assets to be acquired and liabilities to be transferred to the Buyer, as specified in the Business Transfer Agreement, have been classified as assets and liabilities held for sale in the Company's consolidated balance sheets, subject to adjustments set forth in the Business Transfer Agreement. See Note 2 "Discontinued Operations and Assets Held for Sale" for additional information. The consolidated statements of cash flows have not been adjusted to separately disclose cash flows related to discontinued operations, but the material items in the operating and investing activities of cash flows relating to discontinued operations are disclosed in Note 2. Unless otherwise stated, information in these notes to consolidated financial statements relates to the Company's continuing operations and excludes the discontinued operations.

There have been no material changes to the Company's significant accounting policies as of and for the three and nine months ended September 30, 2020, except for those related to discontinued operations and assets held for sale as described below, as compared to the significant accounting policies described in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2019.

Discontinued Operations and Assets Held for Sale

The Company reports the results of operations of a business as discontinued operations if a disposal represents a strategic shift that has or will have a major effect on the Company's operations and financial results when the business is sold and classified as held for sale, in accordance with the criteria of ASC 205, "Presentation of Financial Statements" ("ASC 205") and ASC 360, "Property, Plant and Equipment" ("ASC 360"). Assets and liabilities of a business classified as held for sale are recorded at the lower of its carrying amount or estimated fair value less costs to sell, and depreciation and amortization ceases on the date that the held for sale criteria are met. If the carrying amount of the business exceeds its estimated fair value less costs to sell, a loss is recognized. Assets and liabilities related to discontinued operations classified as held for sale are segregated in the current and prior balance sheets in the period in which the business is classified as held for sale. The results of discontinued operations are reported in "Income from discontinued operations, net of tax" in the accompanying consolidated statements of operations for the current and prior periods commencing in the period in which the business meets the criteria.

Recent Accounting Pronouncements Not Yet Adopted

In December 2019, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes" ("ASU 2019-12"). ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and improves consistent application of and simplifies GAAP for other areas of Topic 740 by clarifying and amending existing guidance. ASU 2019-12 is effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. The Company does not expect the adoption of ASU 2019-12 to have a material effect on the Company's consolidated financial statements.

Recently Adopted Accounting Pronouncements

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"). ASU 2016-13 amends the impairment model by requiring entities to use a forward-looking approach based on expected losses to estimate credit losses on certain types of financial instruments, including trade receivables. In April 2019, the FASB issued Accounting Standards Update No. 2019-04, "Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments" ("ASU 2019-04"), and in November 2019, the FASB issued Accounting Standards Update No. 2019-11, "Codification Improvements to Topic 326, Financial Instruments—Credit Losses" ("ASU 2019-11") to clarify and address certain items related to the amendments in ASU 2016-13. In February 2020, the FASB issued Accounting Standards Update No. 2020-02, "Financial Instruments—Credit Losses (Topic 326)" ("ASU 2020-02"), which incorporates SEC SAB 119 (updated from SAB 102) into the ASC by aligning SEC recommended policies and procedures with ASC 326. The Company adopted ASU 2016-13, ASU 2019-04, ASU 2019-11 and ASU 2020-02 as of January 1, 2020, and the adoption did not have a material impact on the Company's consolidated financial statements.

In August 2018, the FASB issued Accounting Standards Update No. 2018-13 "Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement" ("ASU 2018-13"). ASU 2018-13 amends existing fair value measurement disclosure requirements by adding, changing, or removing certain disclosures. The Company adopted ASU 2018-13 as of January 1, 2020, and the adoption of ASU 2018-13 did not impact the Company's consolidated financial statements.

2. Discontinued Operations and Assets Held for Sale

On September 1, 2020, the Company completed the sale of the Company's Foundry Services Group business and Fab 4. As a result of the sale of the Foundry Services Group business and Fab 4, the Company recorded a gain of $287,117 thousand and all operations from the Foundry Services Group business and Fab 4 were classified as discontinued operations for all periods presented. Following the consummation of the sale, and for up to three years, the Company is expected to provide the Transitional Fab 3 Foundry Services at an agreed upon cost plus mark-up. Accounts receivable related to providing the Transitional Fab 3 Foundry Services to the Buyer was $2,484 thousand as of September 30, 2020 and there was no related cash inflow for the three and nine months ended September 30, 2020.

The following table summarizes the results from discontinued operations, net of tax, for the three and nine months ended September 30, 2020 and 2019.

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	(In thousands of U.S. dollars, except share data)			
Revenues:				
Net sales – Foundry Services Group	$ 72,674	$ 90,404	$ 254,732	$ 220,659
Net sales – transitional Fab 3 foundry services	(6,277)	(9,894)	(25,887)	(25,776)
Total revenues	66,397	80,510	228,845	194,883
Cost of sales:				
Cost of sales – Foundry Services Group	52,420	64,793	182,872	179,152
Cost of sales – transitional Fab 3 foundry services	(6,277)	(9,894)	(25,887)	(25,776)
Total cost of sales	46,143	54,899	156,985	153,376
Gross profit	20,254	25,611	71,860	41,507
Operating expenses:				
Selling, general and administrative expenses	4,068	6,126	14,704	18,040
Research and development expenses	5,166	7,135	19,484	22,326
Restructuring and other charges	7,870	763	10,574	4,787
Total operating expenses	17,104	14,024	44,762	45,153
Operating income (loss) from discontinued operations	3,150	11,587	27,098	(3,646)
Foreign currency gain (loss), net	(797)	780	1,277	2,533
Others, net	18	(10)	66	(59)
Income (loss) from discontinued operations before income tax expense	2,371	12,357	28,441	(1,172)
Income tax expense (benefit)	14,173	(280)	15,517	(209)
Gain on sale of discontinued operations	287,117	—	287,117	—
Transaction costs	(10,814)	—	(10,814)	—
Income (loss) from discontinued operations, net of tax	264,501	12,637	289,227	(963)

For the three months ended September 30, 2020 and 2019, the Company recorded $7,870 thousand and $763 thousand, respectively, and for the nine months ended September 30, 2020 and 2019, the Company recorded $10,574 thousand and $2,636 thousand, respectively, in professional fees and transaction related expenses incurred in connection with the sale of the Foundry Services Group business and Fab 4, and recorded such costs as restructuring and other charges in the above. For the nine months ended September 30, 2019, the Company also recorded in the same line a $2,151 thousand restructuring-related charge to its fab employees.

The following table provides a reconciliation of the aggregate carrying amounts of major classes of assets and liabilities relating to the Foundry Services Group business and Fab 4, which are included in assets and liabilities held for sale as of December 31, 2019 in the accompanying consolidated balance sheet:

	December 31, 2019 (In thousands of U.S. dollars)
Assets	
Current assets	
Accounts receivable, net	$ 48,194
Unbilled accounts receivable	16,463
Inventories, net	31,863
Other current assets	3,301
Total current assets held for sale	$ 99,821
Property, plant and equipment, net	109,506
Intangible assets, net	1,245
Other non-current assets	12,683
Total assets held for sale	$ 223,255
Liabilities	
Current liabilities	
Accounts payable	$ 20,503
Other current liabilities	16,537
Total current liabilities held for sale	$ 37,040
Accrued severance benefits, net	95,547
Other non-current liabilities	15,334
Total liabilities held for sale	$ 147,921

The following table provides supplemental cash flows information related to discontinued operations:

	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
	(In thousands of U.S. dollars)	
Significant non-cash operating activities:		
Depreciation and amortization	$ 5,365	$ 16,958
Provision for severance benefits	8,209	5,997
Stock-based compensation	388	259
Investing activities:		
Capital expenditures	$ (5,838)	$ (9,174)

3. Sales of Accounts Receivable and Receivable Discount Program

The Company is party to an agreement to sell selected trade accounts receivable to a financial institution from time to time since March 2012. After the sale, the Company does not retain any interest in the receivables and the applicable financial institution collects these accounts receivable directly from the customer. There was no sale of accounts receivable for the nine months ended September 30, 2020. For the nine months ended September 30, 2019, the proceeds from the sales of these accounts receivable totaled $14,474 thousand and these sales resulted in pre-tax losses of $45 thousand, which are included in selling, general and administrative expenses in the consolidated statements of operations. Net proceeds of this accounts receivable sale program are recognized in the consolidated statements of cash flows as part of operating cash flows.

The Company uses receivable discount programs with certain customers. These discount arrangements allow the Company to accelerate collection of customers' receivables.

4. Inventories

Inventories as of September 30, 2020 and December 31, 2019 consist of the following (in thousands):

	September 30, 2020	December 31, 2019
Finished goods	$ 5,030	$ 10,087
Semi-finished goods and work-in-process	28,919	28,815
Raw materials	5,743	8,449
Materials in-transit	444	—
Less: inventory reserve	(6,505)	(5,947)
Inventories, net	$ 33,631	$ 41,404

Changes in inventory reserve for the three and nine months ended September 30, 2020 and 2019 are as follows (in thousands):

	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Beginning balance	$ (5,307)	$ (5,947)	$ (11,782)	$ (4,845)
Change in reserve				
Inventory reserve charged to costs of sales	(3,472)	(6,541)	(1,298)	(10,745)
Sale of previously reserved inventory	1,578	3,231	914	1,880
	(1,894)	(3,310)	(384)	(8,865)
Write off	835	1,976	377	1,593
Translation adjustments	(139)	82	461	789
Reclassified to assets held for sale	—	694	—	—
Ending balance	$ (6,505)	$ (6,505)	$ (11,328)	$ (11,328)

Inventory reserve represents the Company's best estimate in value lost due to excessive inventory level, physical deterioration, obsolescence, changes in price levels, or other causes based on individual facts and circumstances. Inventory reserve relates to inventory items including finished goods, semi-finished goods, work-in-process and raw materials. Write off of this reserve is recognized only when the related inventory has been disposed or scrapped.

5. Property, Plant and Equipment

Property, plant and equipment as of September 30, 2020 and December 31, 2019 are comprised of the following (in thousands):

	September 30, 2020	December 31, 2019
Buildings and related structures	$ 22,580	$ 22,502
Machinery and equipment	90,136	89,453
Finance lease right-of-use assets	319	323
Others	31,802	22,242
	144,837	134,520
Less: accumulated depreciation	(81,409)	(75,704)
Land	14,061	14,252
Property, plant and equipment, net	$ 77,489	$ 73,068

Aggregate depreciation expenses totaled $7,473 thousand and $7,267 thousand for the nine months ended September 30, 2020 and 2019, respectively.

6. Intangible Assets

Intangible assets as of September 30, 2020 and December 31, 2019 are comprised of the following (in thousands):

	September 30, 2020		
	Gross amount	Accumulated amortization	Net amount
Technology	$ 6,487	$ (6,487)	$ —
Customer relationships	10,044	(10,044)	—
Intellectual property assets	8,760	(5,883)	2,877
Intangible assets, net	$25,291	$ (22,414)	$2,877

	December 31, 2019		
	Gross amount	Accumulated amortization	Net amount
Technology	$ 6,575	$ (6,575)	$ —
Customer relationships	10,180	(10,180)	—
Intellectual property assets	8,637	(5,868)	2,769
Intangible assets, net	$25,392	$ (22,623)	$2,769

Aggregate amortization expenses for intangible assets totaled $495 thousand and $436 thousand for the nine months ended September 30, 2020 and 2019, respectively.

7. Leases

The Company has operating and finance leases for buildings and other assets such as vehicles and office equipment. The Company's leases have remaining lease terms ranging from 1 year to 3 years.

The tables below present financial information related to the Company's leases.

The Company adopted the new lease accounting standard as of January 1, 2019, using the modified retrospective transition method. The tables below present financial information related to the Company's leases

Supplemental balance sheets information related to leases as of September 30, 2020 and December 31, 2019 are as follows (in thousands):

Leases	Classification	September 30, 2020	December 31, 2019
Assets			
Operating lease	Operating lease right-of-use assets	$ 2,032	$ 1,876
Finance lease	Property, plant and equipment, net	207	258
Total lease assets		$ 2,239	$ 2,134
Liabilities			
Current			
Operating	Operating lease liabilities	$ 1,390	$ 1,625
Finance	Other current liabilities	62	60
Non-current			
Operating	Other non-current liabilities	642	251
Finance	Other non-current liabilities	158	208
Total lease liabilities		$ 2,252	$ 2,144

The following table presents the weighted average remaining lease term and discount rate:

	September 30, 2020	December 31, 2019
Weighted average remaining lease term		
Operating leases	1.4 years	1.1 years
Finance leases	3.3 years	4.0 years
Weighted average discount rate		
Operating leases	6.82%	7.19%
Finance leases	7.75%	7.75%

The components of lease cost included in the Company's consolidated statements of operations, are as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Operating lease cost	$ 480	$ 483	$ 1,409	$ 1,509
Finance lease cost				
Amortization of right-of-use assets	16	15	47	48
Interest on lease liabilities	4	5	13	17
Total lease cost	$ 500	$ 503	$ 1,469	$ 1,574

The above table does not include an immaterial cost of short-term leases for the three and nine months ended September 30, 2020 and 2019.

Other lease information is as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Cash paid for amounts included in the measurement of lease liabilities				
Operating cash flows from operating leases	$ 480	$ 483	$ 1,409	$ 1,509
Operating cash flows from finance leases	4	5	13	17
Financing cash flows from finance leases	15	13	43	41

The aggregate future lease payments for operating and finance leases as of September 30, 2020 are as follows (in thousands):

	Operating Leases	Finance Leases
2020	$ 358	$ 19
2021	1,459	77
2022	308	77
2023	16	77
Thereafter	—	—
Total future lease payments	2,141	250
Less: Imputed interest	(109)	(30)
Present value of future payments	$ 2,032	$ 220

8. Accrued Expenses

Accrued expenses as of September 30, 2020 and December 31, 2019 are comprised of the following (in thousands):

	September 30, 2020	December 31, 2019
Payroll, benefits and related taxes, excluding severance benefits	$ 9,743	$ 8,493
Withholding tax attributable to intercompany interest income	25,206	23,371
Interest on senior notes	3,444	8,205
Outside service fees	685	1,996
Others	2,552	2,734
Accrued expenses	$ 41,630	$ 44,799

9. Derivative Financial Instruments

The Company's Korean subsidiary from time to time has entered into zero cost collar 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.

Details of derivative contracts as of September 30, 2020 are as follows (in thousands):

Date of transaction	Type of derivative	Total notional amount		Month of settlement
December 4, 2019	Zero cost collar	$	15,000	October 2020 to December 2020
January 31, 2020	Zero cost collar	$	15,000	October 2020 to December 2020
February 3, 2020	Zero cost collar	$	9,000	October 2020 to December 2020
February 21, 2020	Zero cost collar	$	15,000	October 2020 to December 2020
July 13, 2020	Zero cost collar	$	30,000	January 2021 to June 2021

Details of derivative contracts as of December 31, 2019 are as follows (in thousands):

Date of transaction	Type of derivative	Total notional amount		Month of settlement
August 13, 2019	Zero cost collar	$	60,000	January 2020 to June 2020
September 27, 2019	Zero cost collar	$	42,000	January 2020 to June 2020
December 4, 2019	Zero cost collar	$	30,000	July 2020 to December 2020

The zero cost collar contracts qualify as cash flow hedges under ASC 815, "Derivatives and Hedging," 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 fair values of the Company's outstanding zero cost collar contracts recorded as assets and liabilities as of September 30, 2020 and December 31, 2019 are as follows (in thousands):

Derivatives designated as hedging instruments:		September 30, 2020		December 31, 2019	
Asset Derivatives:					
Zero cost collars	Other current assets	$	262	$	1,456
Liability Derivatives:					
Zero cost collars	Other current liabilities	$	33	$	—

Offsetting of derivative assets and liabilities as of September 30, 2020 is as follows (in thousands):

							Gross amounts not offset in the balance sheets					
As of September 30, 2020	Gross amounts of recognized assets/liabilities		Gross amounts offset in the balance sheets		Net amounts of assets/liabilities presented in the balance sheets		Financial instruments		Cash collateral pledged		Net amount	
Asset Derivatives:												
Zero cost collars	$	262	$	—	$	262	$	—	$	—	$	262
Liability Derivatives:												
Zero cost collars	$	33	$	—	$	33	$	—	$	—	$	33

Offsetting of derivative assets as of December 31, 2019 is as follows (in thousands):

							Gross amounts not offset in the balance sheets					
As of December 31, 2019	Gross amounts of recognized assets		Gross amounts offset in the balance sheets		Net amounts of assets presented in the balance sheets		Financial instruments		Cash collateral pledged		Net amount	
Asset Derivatives:												
Zero cost collars	$	1,456	$	—	$	1,456	$	—	$	1,070	$	2,526

For derivative instruments that are designated and qualify as cash flow hedges, gains or losses on the derivative aside from components excluded from the assessment of effectiveness are 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 hedge components excluded from the assessment of effectiveness, are recognized in current earnings.

The following table summarizes the impact of derivative instruments on the consolidated statements of operations for the three and nine months ended September 30, 2020 and 2019 and net sales of discontinued operation are included in the below table (in thousands):

Derivatives in ASC 815 Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in AOCI on Derivatives		Location/Amount of Loss Reclassified from AOCI Into Statement of Operations			Location/Amount of Gain (Loss) Recognized in Statement of Operations on Derivatives		
	Three Months Ended September 30,			Three Months Ended September 30,			Three Months Ended September 30,	
	2020	2019		2020	2019		2020	2019
Zero cost collars	$ 1,390	$ (2,803)	Net sales	$ (41)	$ (1,600)	Other income, net	$ 50	$ (33)

Derivatives in ASC 815 Cash Flow Hedging Relationships	Amount of Loss Recognized in AOCI on Derivatives		Location/Amount of Loss Reclassified from AOCI Into Statement of Operations			Location/Amount of Gain (Loss) Recognized in Statement of Operations on Derivatives		
	Nine Months Ended September 30,			Nine Months Ended September 30,			Nine Months Ended September 30,	
	2020	2019		2020	2019		2020	2019
Zero cost collars	$(1,410)	$(3,905)	Net sales	$ (292)	$ (1,803)	Other income, net	$ 222	$ (44)
Forwards	$ —	$(1,798)	Net sales	$ —	$ (1,750)	Other income, net	$ —	$ (125)
	$(1,410)	$(5,703)		$ (292)	$ (3,553)		$ 222	$ (169)

As of September 30, 2020, the amount expected to be reclassified from accumulated other comprehensive income into income within the next twelve months is $427 thousand.

The Company set aside $9,650 thousand and $8,750 thousand of cash deposits to the counterparties, Nomura Financial Investment (Korea) Co., Ltd. ("NFIK") and Deutsche Bank AG, Seoul Branch ("DB"), as required for the zero cost collar contracts outstanding as of September 30, 2020 and December 31, 2019, respectively. These cash deposits are recorded as hedge collateral on the consolidated balance sheets.

The Company is required to deposit additional cash collateral with NFIK and DB for any exposure in excess of $500 thousand, and no such cash collateral was required as of September 30, 2020. As of December 31, 2019, $1,070 thousand of additional cash collateral were required and recorded as hedge collateral on the consolidated balance sheet.

These forward and zero cost collar contracts may be terminated by the counterparty in a number of circumstances, including if the Company's borrowing rating falls below B-/B3 or if the Company's total cash and cash equivalents is less than $30,000 thousand at the end of a fiscal quarter, unless a waiver is obtained from the counterparty.

10. Fair Value Measurements

Fair Value of Financial Instruments

As of September 30, 2020, the following table represents the Company's assets and liabilities measured at fair value on a recurring basis and the basis for that measurement (in thousands):

	Carrying Value September 30, 2020	Fair Value Measurement September 30, 2020	Quoted Prices in Active Markets for Identical Asset / Liability (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:					
Derivative assets (other current assets)	$ 262	$ 262	—	$ 262	—
Liabilities:					
Derivative liabilities (other current liabilities)	$ 33	$ 33	—	$ 33	—

As of December 31, 2019, the following table represents the Company's assets measured at fair value on a recurring basis and the basis for that measurement (in thousands):

	Carrying Value December 31, 2019	Fair Value Measurement December 31, 2019	Quoted Prices in Active Markets for Identical Asset (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:					
Derivative assets (other current assets)	$ 1,456	$ 1,456	—	$ 1,456	—

Items not reflected in the table above include cash equivalents, accounts receivable, other receivables, accounts payable, and other accounts payable, fair value of which approximate carrying values due to the short-term nature of these instruments. The fair value of assets and liabilities whose carrying value approximates fair value is determined using Level 2 inputs.

Fair Value of Borrowings

	September 30, 2020		December 31, 2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In thousands of U.S. dollars)			
Borrowings:				
5.0% Exchangeable Senior Notes due March 2021 (Level 2)	$ 83,088	$126,643	$ 81,959	$116,078
6.625% Senior Notes due July 2021 (Level 2)	$223,479	$224,250	$222,784	$224,250

On January 17, 2017, the Company's wholly-owned subsidiary, MagnaChip Semiconductor S.A., closed an offering (the "Exchangeable Notes Offering") of 5.0% Exchangeable Senior Notes due March 1, 2021 (the "Exchangeable Notes"), of $86,250 thousand, which represents the principal amount, excluding $5,902 thousand of debt issuance costs. In December 2018 and February 2019, MagnaChip Semiconductor S.A. repurchased a principal amount equal to $1,590 thousand and $920 thousand, respectively, of the Exchangeable Notes in the open market. The Company estimates the fair value of the Exchangeable Notes using the market approach, which utilizes quoted market prices that fall under Level 2. For further description of the Exchangeable Notes, see Note 11, "Borrowings."

On July 18, 2013, the Company issued 6.625% Senior Notes due July 15, 2021 (the "2021 Notes") of $225,000 thousand, which represents the principal amount, excluding $1,125 thousand of original issue discount and $5,039 thousand of debt issuance costs. In December 2018 and January 2019, the Company repurchased a principal amount equal to $500 thousand and $250 thousand, respectively, of the 2021 Notes in the open market. The Company estimates the fair value of the 2021 Notes using the market approach, which utilizes quoted market prices that fall under Level 2. For further description of the 2021 Notes, see Note 11, "Borrowings" and Note 19, "Subsequent Events."

Fair Values Measured on a Non-recurring Basis

The Company's non-financial assets, such as property, plant and equipment, and intangible assets are recorded at fair value upon acquisition and are remeasured at fair value only if an impairment charge is recognized. As of September 30, 2020 and 2019, the Company did not have any assets or liabilities measured at fair value on a non-recurring basis.

11. Borrowings

Borrowings as of September 30, 2020 and December 31, 2019 are as follows (in thousands):

	September 30, 2020	December 31, 2019
5.0% Exchangeable Senior Notes due March 2021	$ 83,740	$ 83,740
6.625% Senior Notes due July 2021	224,250	224,250
Less: unamortized discount and debt issuance costs	(1,423)	(3,247)
Total borrowings, net	306,567	304,743
Less: current portion of long-term borrowings, net	306,567	—
Long-term borrowings, net	$ —	$ 304,743

5.0% Exchangeable Senior Notes

On January 17, 2017, MagnaChip Semiconductor S.A. closed the Exchangeable Notes Offering of $86,250 thousand aggregate principal amount of 5.0% Exchangeable Notes. Interest on the Exchangeable Notes accrues at a rate of 5.0% per annum, payable semi-annually on March 1 and September 1 of each year, beginning on March 1, 2017. The Exchangeable Notes will mature on March 1, 2021, unless earlier repurchased or converted. Holders may convert their notes at their option at any time prior to the close of business on the business day immediately preceding the stated maturity date.

The Company used a portion of the net proceeds from the issuance to repurchase 1,795,444 shares of common stock under its stock repurchase program at an aggregate cost of $11,401 thousand.

Upon conversion, the Company will deliver for each $1,000 principal amount of converted notes a number of shares equally to the exchange rate, which will initially be 121.1387 shares of common stock per $1,000 principal amount of Exchangeable Notes, equivalent to an initial exchange price of approximately $8.26 per share of common stock. The exchange rate will be subject to adjustment in some circumstances, but will not be adjusted for any accrued and unpaid interest. In addition, if a "make-whole fundamental change" (as defined in the Exchangeable Notes indenture (the "Exchangeable Notes Indenture")) occurs prior to the stated maturity date, the Company will increase the exchange rate for a holder who elects to convert its notes in connection with such make-whole fundamental change in certain circumstances. MagnaChip Semiconductor S.A. may also, under certain circumstances, be required to pay additional amounts to holders of Exchangeable Notes if withholding or deduction is required in a relevant tax jurisdiction.

If the Company undergoes a fundamental change, subject to certain conditions, holders may require the Company to repurchase for cash all or part of their notes at a purchase price equal to 100% of the principal amount of the notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change purchase date. In addition, upon certain events of default described in the Exchangeable Notes Indenture, the trustee or holders of at least 25% principal amount of the Exchangeable Notes may declare 100% of the then outstanding Exchangeable Notes due and payable in full, together with all accrued and unpaid interest thereon. Payment of principal on the Exchangeable Notes may also accelerate and become automatically due and payable upon certain events of default involving bankruptcy or insolvency proceedings involving the Company, MagnaChip Semiconductor S.A. and their significant subsidiaries. The Exchangeable Notes are not redeemable at the option of MagnaChip Semiconductor S.A. prior to the maturity date.

The Exchangeable Notes Indenture contains covenants that limit the ability of the Company, MagnaChip Semiconductor S.A. and the Company's other 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 or maturity, any subordinated indebtedness; (iii) make certain investments; (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; (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; and (ix) designate unrestricted subsidiaries.

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

The Company incurred debt issuance costs of $5,902 thousand related to the issuance of the Exchangeable Notes. The debt issuance costs are recorded as a direct deduction from the long-term borrowings in the consolidated balance sheets and amortized to interest expense using the effective interest method over the term of the Exchangeable Notes. Interest expense related to the Exchangeable Notes for the three and nine months ended September 30, 2020 were $1,429 thousand and $4,720 thousand, respectively. Interest expense related to the Exchangeable Notes for the three and nine months ended September 30, 2019 were $1,404 thousand and $4,206 thousand, respectively.

In December 2018, the Company repurchased a principal amount equal to $1,590 thousand of the Exchangeable Notes in the open market, resulting in a loss of $234 thousand, which was recorded as loss on early extinguishment of long-term borrowings, net in the consolidated statements of operations for the year ended December 31, 2018. In February 2019, the Company repurchased a principal amount equal to $920 thousand of the Exchangeable Notes in the open market, resulting in a loss of $63 thousand, which was recorded as loss on early extinguishment of long-term borrowings, net in the consolidated statements of operations for the year ended December 31, 2019.

6.625% Senior Notes

On July 18, 2013, the Company issued a $225,000,000 aggregate principal amount of the 2021 Notes at a price of 99.5%. Interest on the 2021 Notes accrues at a rate of 6.625% per annum, payable semi-annually on January 15 and July 15 of each year, beginning on January 15, 2014.

On or after July 15, 2019, the Company can optionally redeem all or a part of the 2021 Notes at a redemption price equal to 100% of the principal amount of the notes 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 2021 Notes contains covenants that limit the ability of the Company and its 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 or maturity, any subordinated indebtedness; (iii) make certain investments; (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; (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 the Company or other restricted subsidiaries, to make loans to the Company or other restricted subsidiaries or to transfer assets to the Company 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 2021 Notes are rated investment grade at any time.

The Company incurred original issue discount of $1,125 thousand and debt issuance costs of $5,039 thousand related to the issuance of the 2021 Notes. The original issue discount and the debt issuance costs are recorded as a direct deduction from the long-term borrowings in the consolidated balance sheets and amortized to interest expense using the effective interest method over the term of the 2021 Notes. Interest expense related to the 2021 Notes for the three and nine months ended September 30, 2020 were $3,951 thousand and $11,838 thousand, respectively. Interest expenses related to the 2021 Notes for the three and nine months ended September 30, 2019 were $3,935 thousand and $11,794 thousand, respectively.

In December 2018, the Company repurchased a principal amount equal to $500 thousand of the 2021 Notes in the open market, resulting in a net gain of $28 thousand, which was recorded as loss on early extinguishment of long-term borrowings, net in the consolidated statements of operations for the year ended December 31, 2018. In January 2019, the Company repurchased a principal amount equal to $250 thousand of the 2021 Notes in the open market, resulting in a net gain of $21 thousand, which was recorded as loss on early extinguishment of long-term borrowings, net in the consolidated statements of operations for the year ended December 31, 2019. On October 2, 2020, the Company redeemed all of the outstanding 2021 Notes. For a further discussion of such redemption, see Note 19, "Subsequent Events."

12. Accrued Severance Benefits

The majority of accrued severance benefits are for employees in the Company's Korean subsidiary. Pursuant to the Employee Retirement Benefit Security Act of Korea, eligible 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, 2020, 98% of all employees of the Company were eligible for severance benefits.

Changes in accrued severance benefits are as follows (in thousands):

	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Beginning balance	$ 51,785	$ 53,344	$ 53,202	$ 55,691
Provisions	2,167	5,941	1,851	4,494
Severance payments	(1,295)	(4,749)	(1,017)	(4,312)
Translation adjustments	1,204	(675)	(2,180)	(4,017)
	53,861	53,861	51,856	51,856
Less: Cumulative contributions to severance insurance deposit accounts	(1,616)	(1,616)	(1,357)	(1,357)
The National Pension Fund	(73)	(73)	(80)	(80)
Group severance insurance plan	(219)	(219)	(227)	(227)
Accrued severance benefits, net	$ 51,953	$ 51,953	$ 50,192	$ 50,192

The severance benefits funded through the Company's National Pension Fund and group severance insurance plan will be used exclusively for payment of severance benefits to eligible employees. These amounts have been deducted from the accrued severance benefit balance.

In July 2018, the Company began contributing to certain severance insurance deposit accounts a certain percentage of severance benefits that are accrued for eligible employees for their services from January 1, 2018. These accounts consist of time deposits and other guaranteed principal and interest, and are maintained at insurance companies, banks or security companies for the benefit of employees. The Company deducts the contributions made to these severance insurance deposit accounts from its accrued severance benefits.

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

	Severance benefit
Remainder of 2020	$ 387
2021	386
2022	743
2023	605
2024	1,074
2025	2,157
2026 – 2030	19,644

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.

Korea's mandatory retirement age is 60 under the Employment Promotion for the Aged Act.

13. Foreign Currency Gain (Loss), Net

Net foreign currency gain or loss includes non-cash translation gain or loss associated with intercompany balances. A substantial portion of the Company's net foreign currency gain or loss is non-cash translation gain or loss associated with intercompany long-term loans to the Company's Korean subsidiary. The loans are denominated in U.S. dollars and are affected by changes in the exchange rate between the Korean won and the U.S. dollar. As of September 30, 2020 and December 31, 2019, the outstanding intercompany loan balances including accrued interest between the Korean subsidiary and the Dutch subsidiary were $445,991 thousand and $686,485 thousand, respectively. The Korean won to U.S. dollar exchange rates were 1,173.5:1 and 1,157.8:1 using the first base rate as of September 30, 2020 and December 31, 2019, respectively, as quoted by the KEB Hana Bank.

14. Income Taxes

The Company and its subsidiaries file income tax returns in Korea, Japan, Taiwan, the U.S. and in various other jurisdictions. The Company is subject to income- or non-income tax examinations by tax authorities of these jurisdictions for all open tax years.

Income from continuing operations before income tax expense for the three months ended September 30, 2020 was $7,316 thousand and loss from continuing operations before income tax expense for the three months ended September 30, 2019 was $12,510 thousand. For the three months ended September 30, 2020, the Company recorded an income tax benefit on continuing operations of $1,145 thousand, primarily attributable to the foreign translation loss realized by the Company's Korean subsidiary upon the repayment of a part of its intercompany loans by the Dutch subsidiary to fund the redemption of the 2021 Notes.

For the three months ended September 30, 2019, the Company recorded an income tax expense on continuing operations of $1,734 thousand, primarily attributable to interest on intercompany loan balances. Income tax expense was recorded for the Company's Korean subsidiary based on the estimated taxable income for the respective periods, combined with its ability to utilize net operating loss carryforwards up to 60% in 2019.

Loss from continuing operations before income tax expense for the nine months ended September 30, 2020 and 2019 were $10,007 thousand and $40,973 thousand, respectively. For the nine months ended September 30, 2020 and 2019, the Company recorded income tax expense on continuing of $836 thousand and $3,316 thousand, respectively, primarily attributable to interest on intercompany loan balances. Income tax expense was recorded for the Company's Korean subsidiary based on the estimated taxable income for the respective periods, combined with its ability to utilize net operating loss carryforwards up to 60% in 2019 and 2020.

In July 2020, the U.S. Treasury Department issued final tax regulations related to the foreign-derived intangible income and global intangible low-taxed income (GILTI) provisions, which permits a taxpayer to elect to exclude income subject to a high effective rate of foreign tax from its GILTI inclusion. The Company is currently assessing the potential impact of the final regulations to the Company's consolidated financial statements.

15. Geographic and Other Information

Historically, the Company operated in two reportable segments: Foundry Services Group and Standard Products Group. The Company's Foundry Services Group provides specialty analog and mixed-signal foundry services mainly for fabless and Integrated Device Manufacturer ("IDM") semiconductor companies that primarily serve communications, IoT, consumer, industrial and automotive applications. The Company's Standard Products Group is comprised of two business lines: Display Solutions and Power Solutions. The Company's Display Solutions products provide panel display solutions to major suppliers of large and small rigid and flexible panel displays, and mobile, automotive applications and home appliances. The Company's Power Solutions products include discrete and integrated circuit solutions for power management in communications, consumer and industrial applications.

On September 1, 2020, the Company completed the sale of the Company's Foundry Services Group business and Fab 4. This divestiture allows the Company to strategically shift its operational focus to its standard products business. As a result, the results of the Foundry Services Group business were classified as discontinued operations in the Company's consolidated statements of operations and thus excluded from both continuing operations and segment results for all periods presented. Please see "Item 1. Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Note 2. Discontinued Operations and Assets Held for Sale" for additional information on the results of discontinued operations. Accordingly, the Company now has one reportable segment. The Company's chief operating decision maker is its Chief Executive Officer, who allocates resources and assesses performance of the business and other activities based on gross profit.

The following sets forth information relating to the single continuing operating segment (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Revenues				
Standard products business				
Display Solutions	$ 69,583	$ 90,550	$ 216,352	$ 233,041
Power Solutions	46,679	48,723	119,601	138,502
Total standard products business	116,262	139,273	335,953	371,543
Transitional Fab 3 foundry services	8,551	9,894	28,161	25,776
Total revenues	$ 124,813	$ 149,167	$ 364,114	$ 397,319

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Gross Profit				
Standard products business	$ 28,768	$ 35,255	$ 90,036	$ 85,900
Transitional Fab 3 foundry services	(180)	—	(180)	—
Total gross profit	$ 28,588	$ 35,255	$ 89,856	$ 85,900

The following is a summary of net sales – standard products business (which does not include the Transitional Fab 3 Foundry Services) by geographic region, based on the location to which the products are billed (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Korea	$ 28,370	$ 36,114	$ 81,144	$ 107,319
Asia Pacific (other than Korea)	84,188	100,872	245,940	258,276
United States	1,789	482	3,959	1,600
Europe	1,451	1,501	3,278	3,515
Others	464	304	1,632	833
Total	$ 116,262	$ 139,273	$ 335,953	$ 371,543

For the three months ended September 30, 2020 and 2019, of the Company's net sales – standard products business in Asia Pacific (other than Korea), net sales – standard products business in Greater China (China, Hong Kong and Macau) represented 87.7% and 95.8%, respectively.

For the nine months ended September 30, 2020 and 2019, of the Company's net sales – standard products business in Asia Pacific (other than Korea), net sales – standard products business in Greater China (China, Hong Kong and Macau) represented 88.4% and 95.8%, respectively.

Net sales from the Company's top ten largest customers in the standard products business (which does not include the Transitional Fab 3 Foundry Services) accounted for 87% and 90% for the three months ended September 30, 2020 and 2019, respectively, and 88% and 90% for the nine months ended September 30, 2020 and 2019, respectively.

For the three months ended September 30, 2020, the Company had one customer that represented 52.9% of its net sales – standard products business, and for the nine months ended September 30, 2020, the Company had one customer that represented 54.0% of its net sales – standard products business.

For the three months ended September 30, 2019, the Company had one customer that represented 56.1% of its net sales – standard products business, and for the nine months ended September 30, 2019, the Company had one customer that represented 52.6% of its net sales – standard products business.

As of September 30, 2020 and December 31, 2019, one customer accounted for 39.4% and 43.1% of accounts receivable, net, respectively.

16. Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) consists of the following as of September 30, 2020 and December 31, 2019, respectively (in thousands):

	September 30, 2020	December 31, 2019
Foreign currency translation adjustments	$ 4,986	$ (4,205)
Derivative adjustments	427	1,545
Total	$ 5,413	$ (2,660)

Changes in accumulated other comprehensive income (loss) for the three months ended September 30, 2020 and 2019 are as follows (in thousands):

Three Months Ended September 30, 2020	Foreign currency translation adjustments	Derivative adjustments	Total
Beginning balance	$ 11,503	$ (1,004)	$ 10,499
Other comprehensive income (loss) before reclassifications	(6,517)	1,390	(5,127)
Amounts reclassified from accumulated other comprehensive loss	—	41	41
Net current-period other comprehensive income (loss)	(6,517)	1,431	(5,086)
Ending balance	$ 4,986	$ 427	$ 5,413

Three Months Ended September 30, 2019	Foreign currency translation adjustments	Derivative adjustments	Total
Beginning balance	$ (5,077)	$ (996)	$ (6,073)
Other comprehensive income (loss) before reclassifications	15,931	(2,803)	13,128
Amounts reclassified from accumulated other comprehensive loss	—	1,600	1,600
Net current-period other comprehensive income (loss)	15,931	(1,203)	14,728
Ending balance	$ 10,854	$ (2,199)	$ 8,655

Changes in accumulated other comprehensive income (loss) for the nine months ended September 30, 2020 and 2019 are as follows (in thousands):

Nine Months Ended September 30, 2020	Foreign currency translation adjustments	Derivative adjustments	Total
Beginning balance	$ (4,205)	$ 1,545	$(2,660)
Other comprehensive income (loss) before reclassifications	9,191	(1,410)	7,781
Amounts reclassified from accumulated other comprehensive loss	—	292	292
Net current-period other comprehensive income (loss)	9,191	(1,118)	8,073
Ending balance	$ 4,986	$ 427	$ 5,413

Nine Months Ended September 30, 2019	Foreign currency translation adjustments	Derivative adjustments	Total
Beginning balance	$ (20,061)	$ (49)	$(20,110)
Other comprehensive income (loss) before reclassifications	30,915	(5,703)	25,212
Amounts reclassified from accumulated other comprehensive loss	—	3,553	3,553
Net current-period other comprehensive income (loss)	30,915	(2,150)	28,765
Ending balance	$ 10,854	$ (2,199)	$ 8,655

There was no income tax impact related to changes in accumulated other comprehensive income (loss) for the three and nine months ended September 30, 2020 and 2019 due to net operating loss carry-forwards available to offset taxable income and full allowance for deferred tax assets.

17. Earnings (Loss) Per Share

The following table illustrates the computation of basic and diluted earnings (loss) per common share for the three and nine months ended September 30, 2020 and 2019:

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	(In thousands of U.S. dollars, except share data)			
Basic earnings (loss) per share				
Income (loss) from continuing operations	$ 8,461	$ (14,244)	$ (10,843)	$ (44,289)
Income (loss) from discontinued operations, net of tax	264,501	12,637	289,227	(963)
Net income (loss)	$ 272,962	(1,607)	$ 278,384	$ (45,252)
Basic weighted average common stock outstanding	35,280,864	34,357,745	35,089,479	34,266,513
Basic earnings (loss) per common share				
Continuing operations	$ 0.24	$ (0.41)	$ (0.31)	$ (1.29)
Discontinued operations	7.50	0.36	8.24	(0.03)
Total	$ 7.74	$ (0.05)	$ 7.93	$ (1.32)
Diluted earnings (loss) per share				
Income (loss) from continuing operations	$ 8,461	$ (14,244)	$ (10,843)	$ (44,289)
Add back: Interest expense on Exchangeable Notes	1,429	—	—	—
Income (loss) from continuing operations allocated to common stockholders	$ 9,890	$ (14,244)	$ (10,843)	$ (44,289)
Income (loss) from discontinued operations, net of tax	264,501	12,637	289,227	(963)
Net income (loss) allocated to common stockholders	$ 274,391	$ (1,607)	$ 278,384	$ (45,252)
Basic weighted average common stock outstanding	35,280,864	34,357,745	35,089,479	34,266,513
Net effect of dilutive equity awards	1,156,769	—	—	—
Net effect of assumed conversion of 5.0% Exchangeable Notes to common stock	10,144,155	—	—	—
Diluted weighted average common stock outstanding	46,581,788	34,357,745	35,089,479	34,266,513
Diluted earnings (loss) per common share				
Continuing operations	$ 0.21	$ (0.41)	$ (0.31)	$ (1.29)
Discontinued operations	5.68	0.36	8.24	(0.03)
Total	$ 5.89	$ (0.05)	$ 7.93	$ (1.32)

The following outstanding instruments were excluded from the computation of diluted loss per share, as they have an anti-dilutive effect on the calculation:

	Three Months Ended		Nine Months Ended	
	September 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Options	697,667	2,479,423	1,788,202	2,479,423
Restricted Stock Units	—	592,967	1,248,113	592,967

The numbers of shares of potential common stock from the assumed conversion of Exchangeable Notes that were excluded from the computation of diluted loss per share as the anti-dilutive effects were 10,144,155 for each of the nine months ended September 30, 2020 and three months ended September 30, 2019, and 10,156,810 for the nine months ended September 30, 2019.

18. Commitments and Contingencies

Long-term Purchase Agreements and Advances to Suppliers

The Company purchases raw materials from a variety of vendors. During the normal course of business, in order to manage manufacturing lead times and help assure adequacy supply, the Company from time to time may enter into multi-year purchase agreements, which specify future quantities and pricing of materials to be supplied by the vendors. The Company reviews the terms of the long-term supply agreements and assesses the need for any accrual for estimated losses, such as lower of cost or net realizable value that will not be recovered by future sales prices. No such accrual was required as of September 30, 2020 and December 31, 2019, respectively.

The Company, from time to time, may make advances in form of prepayments or deposits to suppliers to procure materials to meet its planned production. The Company recorded advances of $5,545 thousand and $6,593 thousand as other current assets as of September 30, 2020 and December 31, 2019, respectively.

COVID-19 Pandemic

In December 2019, a strain of coronavirus causing a disease known as COVID-19 surfaced in Wuhan, China, resulting in significant disruptions among Chinese manufacturing and other facilities and travel throughout China. In March 2020, the World Health Organization declared the COVID-19 outbreak a pandemic, which continues to spread rapidly in the U.S. and other countries throughout the world. Governmental authorities throughout the world have implemented numerous containment measures, including travel bans and restrictions, quarantines, shelter-in-place orders, and business restrictions and shutdowns, resulting in rapidly changing market and economic conditions.

While the Company experienced some minor disruption in its Power Solutions business from assembly and test subcontractors located in China in the first quarter of 2020 as a result of COVID-19, to date its external Display Solutions business contractors and sub-contractors have not been materially impacted by the outbreak. Nevertheless, while the future impact on the Company’s business from the COVID-19 pandemic is currently difficult to assess, the significant global macro-economic disruption will adversely affect customer demand for some of its products in the near term. The Company is, however, unable to accurately predict the full impact COVID-19 will have on its future results of operations due to numerous uncertainties, including the severity of the disease, the duration of the outbreak, a potential future recurrence of the outbreak, further containment actions that may be taken by governmental authorities, the impact to the businesses of its customers and suppliers, and other factors.

The Company continues to closely monitor and evaluate the nature and scope of the impact on COVID-19 to its business, consolidated results of operations, and financial condition, and may take further actions altering its business operations and managing its costs and liquidity that the Company deems necessary or appropriate to respond to this fast moving and uncertain global health crisis and the resulting global economic consequences.

19. Subsequent Events

Redemption of 6.625% Senior Notes due 2021

The Company completed the redemption of all of the outstanding 2021 Notes on October 2, 2020 (the “Redemption Date”). The Company paid approximately $227.4 million to fully redeem all of the outstanding $224.25 million aggregate principal amount of the 2021 Notes at a redemption price equal to the sum of 100% of the principal amount of the 2021 Notes, plus accrued and unpaid interest thereon to, but excluding, the Redemption Date. The redemption of the 2021 Notes was funded by the Company’s Korean subsidiary’s repayment of intercompany loans using the cash proceeds that it received from the sale of the Foundry Services Group business and Fab 4. On October 12, 2020, the Company paid a withholding tax of approximately $20,562 thousand, attributable to the repaid accrued interests on the related intercompany loans.

FORWARD LOOKING STATEMENTS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), 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," "believe" 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, in "Part II: Item 1A. Risk Factors" herein and in "Part I: Item 1A. Risk Factors" in our Annual Report on Form 10-K filed on February 21, 2020 ("2019 Form 10-K") (including that the impact of the COVID-19 pandemic may also exacerbate the risks discussed therein).

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

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

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

The following discussion and analysis should be read in conjunction with the unaudited consolidated financial statements and the related notes included elsewhere in this Report. We have reclassified certain prior year amounts to conform to the current year's presentation for discontinued operations to reflect the divestiture of our Foundry Services Group business and Fab 4. Unless otherwise stated, information in this section relates to our continuing operations. The consolidated statements of cash flows have not been adjusted to separately disclose cash flows related to discontinued operations.

Overview

We are a designer and manufacturer of analog and mixed-signal semiconductor platform solutions for communications, IoT applications, consumer, industrial and automotive applications. We provide technology platforms for analog, mixed-signal, power, high voltage, non-volatile memory, and radio frequency applications. We have a proven record with more than 40 years of operating history, a portfolio of approximately 1,200 registered patents and pending applications and extensive engineering and manufacturing process expertise.

On March 30, 2020, we entered into the Business Transfer Agreement for the sale of our Foundry Services Group business and Fab 4. The previously announced sale of the Foundry Services Group business and Fab 4 is expected to strategically shift our operational focus to our standard products business. As a result, the results of the Foundry Services Group business were classified as discontinued operations in our consolidated statements of operations from the first quarter of 2020 and excluded from both continuing operations and segment results for all periods presented. Accordingly, commencing in the first quarter of 2020, we have one reportable segment: our standard products business, together with transitional foundry services associated with our fabrication facility located in Gumi, Korea, known as Fab 3, that we expect to perform for the Buyer for up to three years (the "Transitional Fab 3 Foundry Services"). On September 1, 2020, we completed the sale of our Foundry Services Group business and Fab 4 to Key Foundry Co., Ltd. (the "Buyer"), for a purchase price equal to approximately $350.6 million in cash.

Our standard products business includes our Display Solutions and Power Solutions business lines.

Our Display Solutions products provide display solutions to major panel display suppliers of large and mobile rigid and flexible displays for home appliances, mobile communications, monitors, notebooks and automotive applications. Our Display Solutions products include source, gate drivers, timing controllers, and one-chip integrated solutions for LCD (Liquid Crystal Display) and OLED panel displays used in televisions, public displays, monitors, notebooks, mobile communications and automotive applications. Our Display Solutions products support the industry's most advanced display technologies, such as OLEDs, and low temperature polysilicon (LTPS), as well as high-volume display technologies such as thin film transistors (TFT). Since 2007, we have designed and manufactured OLED display driver IC products. Our current portfolio of OLED solutions address a wide range of resolutions ranging from HD to Wide Quad High Definition (WQHD) for applications including smartphones, TVs, and other mobile devices. We believe we have a unique intellectual property portfolio and mixed-signal design and manufacturing expertise in the OLED industry.

Our Power Solutions business line produces power management semiconductor products including discrete and integrated circuit solutions for power management in consumer, communications, computing, industrial and automotive applications. These products include metal oxide semiconductor field effect transistors (MOSFETs), insulated-gate bipolar transistors (IGBTs), AC-DC converters, DC-DC converters, LED drivers, switching regulators, linear regulators, interface ICs and power management ICs (PMICs) for a range of devices, including televisions, smartphones, desktop PCs, notebooks, tablets, servers, telecommunication power, home appliances, industrial applications such as uninterruptible power supplies (UPSs), LED lighting, personal mobility, motor drives, battery management systems (BMS) and automotive electronics.

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

To maintain and increase our profitability, we must accurately forecast trends in demand for electronics devices 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 also invest in relevant research and development activities 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 by overall demand for communications, IoT, consumer, industrial and automotive products and can be adversely affected by periods of weak consumer and enterprise spending or by market share losses by our customers. In order to mitigate the impact of market volatility on our business, we are diversifying our portfolio of products, customers, and target applications. We also expect that new competitors will emerge in these markets that may place increased pressure on the pricing for our products and services. While we believe we are well positioned competitively to compete in these markets and against these new competitors as a result of our long operating history, existing manufacturing capacity and our worldwide customer base, if we are not effective in competing in these markets, our operating results may be adversely affected.

Net sales for our standard products business are driven by design wins in which we are selected by an electronics original equipment manufacturer (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 we have design wins and the products enter into mass production, 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.

In contrast to completely fabless semiconductor companies, our internal manufacturing capacity provides us with greater control over manufacturing costs and the ability to implement process and production improvements for our internally manufactured products, 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 on these products. However, having internal manufacturing capacity exposes us to the risk of under-utilization of manufacturing capacity that results in lower gross profit margins, particularly during downturns in the semiconductor industry.

Our standard products business requires 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. Many of 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. As a result, our manufacturing base and strategy do not require substantial investment in leading edge process equipment for those products, allowing us to utilize our facilities and equipment over an extended period of time with moderate required capital investments. In addition, we are less likely to experience significant industry overcapacity, which can cause product prices to decline significantly. In general, we seek to invest in manufacturing capacity that can be used for multiple high-value applications over an extended period of time. In addition, we outsource manufacturing of those products which do require advanced technology and 12-inch wafer capacity, such as organic light emitting diodes (OLED). We believe this balanced capital investment strategy enables us to optimize our capital investments and facilitates more diversified product and service offerings.

Since 2007, we have designed and manufactured OLED display driver ICs in our internal manufacturing facilities. As we expanded our design capabilities to products that require lower geometries unavailable at our existing manufacturing facilities, we began outsourcing manufacturing of certain OLED display driver ICs to an external 12-inch foundry starting in the second half of 2015. This additional source of manufacturing is an increasingly important part of our supply chain management. By outsourcing manufacturing of advanced OLED products to external 12-inch foundries, we are able to dynamically adapt to the changing customer requirements and address growing markets without substantial capital investments by us. Both at the internal 8-inch manufacturing facilities and external 12-inch foundries, we apply our unique OLED process patents as well as other intellectual property, proprietary process design kits and custom design-flow methodologies.

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 awareness of new product opportunities, market and technology trends and improve our ability to adapt and grow successfully.

Recent Developments

Redemption of 6.625% Senior Notes due 2021

We completed the redemption of the outstanding 2021 Notes on October 2, 2020. We paid approximately $227.4 million to fully redeem all of the outstanding $224.25 million aggregate principal amount of the 2021 Notes at a redemption price equal to the sum of 100% of the principal amount thereof, plus accrued and unpaid interest on the 2021 Notes, but excluding, the Redemption Date. The redemption of the 2021 Notes was funded by our Korean subsidiary's repayment of intercompany loans using the cash proceeds that it received from the sale of the Foundry Services Group business and Fab 4. On October 12, 2020, we paid a withholding tax of approximately $20.6 million, attributable to the repaid accrued interests on the related intercompany loans.

Completion of Sale of the Foundry Services Group business and Fab 4

On September 1, 2020, we completed the previously announced sale of our Foundry Services Group business and Fab 4 to the Buyer in exchange for a purchase price equal to approximately $350.6 million, which included an estimated positive working capital adjustment of approximately $5.9 million, pursuant to the terms of the Business Transfer Agreement, which was entered into on March 30, 2020. The purchase price was paid in a combination of U.S. Dollars in the amount of $46.5 million and Korean Won in the amount of approximately KRW 360.6 billion. In addition to the purchase price, the Buyer assumed all severance liabilities relating to the transferred employees, which had a value of approximately $100 million. For a summary of the key terms and conditions of the Business Transfer Agreement, please see our Current Report on Form 8-K filed on March 31, 2020 and the Business Transfer Agreement filed as Exhibit 10.1 thereto.

Power Outage

On July 20, 2020, our Fab 3 facility in Gumi, South Korea experienced a temporary power outage for approximately 9 hours and 15 minutes. The accident caused certain damage to our work in process wafers and we incurred charges for facility recovery, resulting in an incremental cost of approximately $1.2 million. Management is currently evaluating potential insurance and other claims that we may have to recover our costs incurred as a result of the loss and damages. The recovery of our Fab 3 from this power outage took longer than expected, which limited our ability to produce products in Fab 3 at full capacity, resulting in a lower factory utilization during the third quarter of 2020.

COVID-19 Pandemic

In December 2019, a strain of coronavirus causing a disease known as COVID-19 surfaced in Wuhan, China, resulting in significant disruptions among Chinese manufacturing and other facilities and travel throughout China. In March 2020, the World Health Organization declared the COVID-19 outbreak a pandemic, which continues to spread rapidly in the U.S. and other countries throughout the world. Governmental authorities throughout the world have implemented numerous containment measures, including travel bans and restrictions, quarantines, shelter-in-place orders, and business restrictions and shutdowns, resulting in rapidly changing market and economic conditions.

While we experienced some minor disruption in our Power Solutions business from assembly and test subcontractors located in China in the first quarter of 2020 as a result of COVID-19, to date our external Display Solutions business contractors and sub-contractors have not been materially impacted by the outbreak. Nevertheless, while the future impact on our business from the COVID-19 pandemic is currently difficult to assess, the significant global macro-economic disruption will adversely affect customer demand for some of our products in the near term. We are, however, unable to accurately predict the full impact COVID-19 will have on our future results of operations due to numerous uncertainties, including the severity of the disease, the duration of the outbreak, a potential future recurrence of the outbreak, further containment actions that may be taken by governmental authorities, the impact to the businesses of our customers and suppliers, and other factors.

We continue to closely monitor and evaluate the nature and scope of the impact on COVID-19 to our business, consolidated results of operations, and financial condition, and may take further actions altering our business operations and managing our costs and liquidity that we deem necessary or appropriate to respond to this fast moving and uncertain global health crisis and the resulting global economic consequences.

Explanation and Reconciliation of Non-U.S. GAAP Measures

Adjusted EBITDA, Adjusted Operating Income and Adjusted Net Income

We use the terms Adjusted EBITDA, Adjusted Operating Income and Adjusted Net Income (including on a per share basis) in our report. Adjusted EBITDA, as we define it, is a non-U.S. GAAP measure. We define Adjusted EBITDA for the periods indicated as EBITDA (as defined below), adjusted to exclude (i) equity-based compensation expense, (ii) foreign currency loss (gain), net, (iii) derivative valuation loss (gain), net, (iv) loss on early extinguishment of long-term borrowings, net, (v) inventory reserve related to Huawei impact of downstream trade restrictions, (vi) expenses related to Fab 3 power outage and (vii) others. EBITDA for the periods indicated is defined as net income (loss) before interest expense, net, income tax expense, and depreciation and amortization.

See the footnotes to the table below for further information regarding these items. We present Adjusted EBITDA as a supplemental measure of our performance because:

- we believe that Adjusted EBITDA, by eliminating the impact of a number of items that we do not consider to be indicative of our core ongoing operating performance, provides a more comparable measure of our operating performance from period-to-period and may be a better indicator of future performance;
- we believe that Adjusted EBITDA is commonly requested and used by securities analysts, investors and other interested parties in the evaluation of the Company as an enterprise level performance measure that eliminates the effects of financing, income taxes and the accounting effects of capital spending, as well as other one time or recurring items described above; and
- we believe that Adjusted EBITDA is useful for investors, among other reasons, to assess the Company's period-to-period core operating performance and to understand and assess the manner in which management analyzes operating performance.

We use Adjusted EBITDA in a number of ways, including:

- for planning purposes, including the preparation of our annual operating budget;
- to evaluate the effectiveness of our enterprise level business strategies;
- in communications with our Board of Directors concerning our consolidated financial performance; and
- in certain of our compensation plans as a performance measure for determining incentive compensation payments.

We encourage you to evaluate each adjustment and the reasons we consider them appropriate. In evaluating Adjusted EBITDA, you should be aware that in the future we may incur expenses similar to the adjustments in this presentation. Adjusted EBITDA is not a measure defined in accordance with U.S. GAAP and should not be construed as an alternative to income from continuing operations, cash flows from operating activities or net income, as determined in accordance with U.S. GAAP. A reconciliation of net income (loss) to Adjusted EBITDA from continuing operations is as follows:

	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
	(In millions)			
Income (loss) from continuing operations	$ 8.5	$ (10.8)	$ (14.2)	$ (44.3)
Interest expense, net	4.9	14.5	4.9	14.8
Income tax expenses	(1.1)	0.8	1.7	3.3
Depreciation and amortization	2.9	8.0	2.6	7.7
EBITDA	$ 15.0	$ 12.5	$ (5.0)	$ (18.5)
Adjustments:				
Equity-based compensation expense(a)	2.1	4.4	0.4	1.7
Foreign currency loss (gain), net(b)	(8.9)	13.6	22.0	44.2
Derivative valuation loss (gain), net(c)	(0.1)	(0.2)	0.0	0.2
Loss on early extinguishment of long-term borrowings, net(d)	—	—	—	0.0
Inventory reserve related to Huawei impact of downstream trade restrictions (e)	2.3	2.3	—	—
Expenses related to Fab 3 power outage(f)	1.2	1.2	—	—
Others(g)	—	0.6	—	0.6
Adjusted EBITDA	$ 11.7	$ 34.3	$ 17.4	$ 28.1

(a) This adjustment eliminates the impact of non-cash equity-based compensation expenses. Although we expect to incur non-cash equity-based compensation expenses in the future, these expenses do not generally require cash settlement, and, therefore, are not used by us to assess the profitability of our operations. We believe that analysts and investors will find it helpful to review our operating performance without the effects of these non-cash expenses as supplemental information.

(b) This adjustment mainly eliminates the impact of non-cash foreign currency translation associated with intercompany debt obligations with respect to the continuing operations and foreign currency denominated receivables and payables, as well as the cash impact of foreign currency transaction gains or losses on collection of such receivables and payment of such payables. Although we expect to incur foreign currency translation gains or losses in the future, we believe that analysts and investors will find it helpful to review our operating performance without the effects of these primarily non-cash gains or losses, which we cannot control. Additionally, we believe the isolation of this adjustment provides investors with enhanced comparability to prior and future periods of our operating performance results.

(c) This adjustment eliminates the impact of gain or loss recognized in income on derivatives, which represents derivatives value changes excluded from the risk being hedged. We enter into derivative transactions to mitigate foreign exchange risks. As our derivative transactions are limited to a certain portion of our expected cash flows denominated in U.S. dollars, and we do not enter into derivative transactions for trading or speculative purposes, we do not believe that these charges or gains are indicative of our core operating performance.

(d) This adjustment eliminates $0.04 million in expenses related to the repurchase of a portion of the 2021 Notes and the Exchangeable Notes in the first quarter of 2019.

(e) This adjustment eliminates a $2.3 million excess and obsolete inventory charge that we recorded in relation to the U.S. Government's export restrictions on Huawei, which is a downstream customer of some of our direct customers. As this charge meaningfully impacted our operational results and is not expected to represent an ongoing operating expense subject to our ability to foresee and control, we believe our operating performance results are more meaningfully compared if this charge is excluded.

(f) This adjustment eliminates $1.2 million in expenses related to the write-off of the damaged work in process wafers and charges for facility recovery. These charges are inconsistent in amount and frequency, and we do not believe that these charges are indicative of our core operation performance and have been excluded for comparative purposes.

(g) For the nine months ended September 30, 2020, this adjustment primarily eliminates non-recurring professional service fees and expenses incurred in connection with certain treasury and finance initiatives incurred during the three months ended March 31, 2020. For the nine months ended September 30, 2019, this adjustment primarily eliminates a $0.5 million legal settlement charge related to dispute with a prior customer and a legal expense related to the indemnification of a former employee, which is borne by us under a negotiated separation agreement during the three months ended March 31, 2019. We do not believe that these charges are indicative of our core operating performance and have been excluded for comparative purposes.

Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our results as reported under U.S. GAAP. Some of these limitations are:

- Adjusted EBITDA does not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA does not reflect the interest expense, or the cash requirements necessary to service interest or principal payments, on our debt;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often need to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements;
- Adjusted EBITDA does not consider the potentially dilutive impact of issuing equity-based compensation to our management team and employees;
- Adjusted EBITDA does not reflect the costs of holding certain assets and liabilities in foreign currencies; and
- other companies in our industry may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

Because of these limitations, Adjusted EBITDA should not be considered as a measure of discretionary cash available to us to invest in the growth of our business. We compensate for these limitations by relying primarily on our U.S. GAAP results and using Adjusted EBITDA only supplementally.

We present Adjusted Operating Income as supplemental measures of our performance. We prepare Adjusted Operating Income by adjusting operating income to eliminate the impact of equity-based compensation expenses and other items that may be either one time or recurring that we do not consider to be indicative of our core ongoing operating performance. We believe that Adjusted Operating Income is useful to investors to provide a supplemental way to understand our underlying operating performance and allows investors to monitor and understand changes in our ability to generate income from ongoing business operations.

Adjusted Operating Income is not a measure defined in accordance with U.S. GAAP and should not be construed as an alternative to operating income, income from continuing operations, cash flows from operating activities or net income, as determined in accordance with U.S. GAAP. We encourage you to evaluate each adjustment and the reasons we consider them appropriate. Other companies in our industry may calculate Adjusted Operating Income differently than we do, limiting its usefulness as a comparative measure. In addition, in evaluating Adjusted Operating Income, you should be aware that in the future we may incur expenses similar to the adjustments in this presentation. We define Adjusted Operating Income for the periods indicated as operating income adjusted to exclude (i) Equity-based compensation expense, (ii) inventory reserve related to Huawei impact of downstream trade restrictions, (iii) expenses related to Fab 3 power outage and (iv) others.

The following table summarizes the adjustments to operating income that we make in order to calculate Adjusted Operating Income from continuing operations for the periods indicated:

	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
	(In millions)			
Operating income	$ 3.2	$ 17.8	$ 14.3	$ 18.0
Adjustments:				
Equity-based compensation expense(a)	2.1	4.4	0.4	1.7
Inventory reserve related to Huawei impact of downstream trade restrictions (b)	2.3	2.3	—	—
Expenses related to Fab 3 power outage(c)	1.2	1.2	—	—
Others(d)	—	0.6	—	0.6
Adjusted Operating Income	$ 8.8	$ 26.2	$ 14.8	$ 20.3

(a) This adjustment eliminates the impact of non-cash equity-based compensation expenses. Although we expect to incur non-cash equity-based compensation expenses in the future, these expenses do not generally require cash settlement, and, therefore, are not used by us to assess the profitability of our operations. We believe that analysts and investors will find it helpful to review our operating performance without the effects of these non-cash expenses as supplemental information.

(b) This adjustment eliminates a $2.3 million excess and obsolete inventory charge that we recorded in relation to the U.S. Government's export restrictions on Huawei, which is a downstream customer of some of our direct customers. As this charge meaningfully impacted our operational results and is not expected to represent an ongoing operating expense subject to our ability to foresee and control, we believe our operating performance results are more meaningfully compared if this charge is excluded.

(c) This adjustment eliminates $1.2 million in expenses related to the write-off of the damaged work in process wafers and charges for facility recovery. These charges are inconsistent in amount and frequency, and we do not believe that these charges are indicative of our core operation performance and have been excluded for comparative purposes.

(d) For the nine months ended September 30, 2020, this adjustment primarily eliminates non-recurring professional service fees and expenses incurred in connection with certain treasury and finance initiatives incurred during the three months ended March 31, 2020. For the nine months ended September 30, 2019, this adjustment primarily eliminates a $0.5 million legal settlement charge related to dispute with a prior customer and a legal expense related to the indemnification of a former employee, which is borne by us under a negotiated separation agreement during the three months ended March 31, 2019. We do not believe that these charges are indicative of our core operating performance and have been excluded for comparative purposes.

We present Adjusted Net Income (including on a per share basis) as a further supplemental measure of our performance. We prepare Adjusted Net Income (including on a per share basis) by adjusting net income (loss) to eliminate the impact of a number of non-cash expenses and other items that may be either one time or recurring that we do not consider to be indicative of our core ongoing operating performance. We believe that Adjusted Net Income (including on a per share basis); is particularly useful because it reflects the impact of our asset base and capital structure on our operating performance. We present Adjusted Net Income (including on a per share basis) for a number of reasons, including:

- we use Adjusted Net Income (including on a per share basis) in communications with our Board of Directors concerning our consolidated financial performance without the impact of non-cash expenses and the other items as we discussed below since we believe that it is a more consistent measure of our core operating results from period to period; and
- we believe that reporting Adjusted Net Income (including on a per share basis) is useful to readers in evaluating our core operating results because it eliminates the effects of non-cash expenses as well as the other items we discuss below, such as foreign currency gains and losses, which are out of our control and can vary significantly from period to period.

Adjusted Net Income (including on a per share basis) is not a measure defined in accordance with U.S. GAAP and should not be construed as an alternative to income from continuing operations, cash flows from operating activities or net income, as determined in accordance with U.S. GAAP. We encourage you to evaluate each adjustment and the reasons we consider them appropriate. Other companies in our industry may calculate Adjusted Net Income (including on a per share basis) differently than we do, limiting its usefulness as a comparative measure. In addition, in evaluating Adjusted Net Income (including on a per share basis), you should be aware that in the future we may incur expenses similar to the adjustments in this presentation. We define Adjusted Net Income (including on a per share basis); for the periods indicated as net income (loss), adjusted to exclude (i) equity-based compensation expense, (ii) foreign currency loss (gain), net, (iii) derivative valuation loss (gain), net, (iv) loss on early extinguishment of long-term borrowings, net, (v) inventory reserve related to Huawei impact of downstream trade restrictions, (vi) expenses related to Fab 3 power outage and (vii) others.

The following table summarizes the adjustments to income (loss) from continuing operations that we make in order to calculate Adjusted Net Income (including on a per share basis) from continuing operations for the periods indicated:

	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
	(In millions)			
Income (loss) from continuing operations	$ 8.5	$ (10.8)	$ (14.2)	$ (44.3)
Adjustments:				
Equity-based compensation expense(a)	2.1	4.4	0.4	1.7
Foreign currency loss (gain), net(b)	(8.9)	13.6	22.0	44.2
Derivative valuation loss (gain), net(c)	(0.1)	(0.2)	0.0	0.2
Loss on early extinguishment of long-term borrowings, net(d)	—	—	—	0.0
Inventory reserve related to Huawei impact of downstream trade restrictions (e)	2.3	2.3	—	—
Expenses related to Fab 3 power outage(f)	1.2	1.2	—	—
Others(g)	—	0.6	—	0.6
Adjusted Net Income	$ 5.1	$ 11.0	$ 8.2	$ 2.3
Reported earnings (loss) per share – basic	$ 0.24	$ (0.31)	$ (0.41)	$ (1.29)
Reported earnings (loss) per share – diluted	$ 0.21	$ (0.31)	$ (0.41)	$ (1.29)
Weighted average number of shares – basic	35,280,864	35,089,479	34,357,745	34,266,513
Weighted average number of shares – diluted	46,581,788	35,089,479	34,357,745	34,266,513
Adjusted earnings per share – basic	$ 0.15	$ 0.31	$ 0.24	$ 0.07
Adjusted earnings per share – diluted	$ 0.14	$ 0.30	$ 0.21	$ 0.07
Weighted average number of shares – basic	35,280,864	35,089,479	34,357,745	34,266,513
Weighted average number of shares – diluted	46,581,788	36,151,622	45,516,245	34,955,722

(a) This adjustment eliminates the impact of non-cash equity-based compensation expenses. Although we expect to incur non-cash equity-based compensation expenses in the future, these expenses do not generally require cash settlement, and, therefore, are not used by us to assess the profitability of our operations. We believe that analysts and investors will find it helpful to review our operating performance without the effects of these non-cash expenses as supplemental information.

(b) This adjustment mainly eliminates the impact of non-cash foreign currency translation associated with intercompany debt obligations with respect to the continuing operations and foreign currency denominated receivables and payables, as well as the cash impact of foreign currency transaction gains or losses on collection of such receivables and payment of such payables. Although we expect to incur foreign currency translation gains or losses in the future, we believe that analysts and investors will find it helpful to review our operating performance without the effects of these primarily non-cash gains or losses, which we cannot control. Additionally, we believe the isolation of this adjustment provides investors with enhanced comparability to prior and future periods of our operating performance results.

(c) This adjustment eliminates the impact of gain or loss recognized in income on derivatives, which represents derivatives value changes excluded from the risk being hedged. We enter into derivative transactions to mitigate foreign exchange risks. As our derivative transactions are limited to a certain portion of our expected cash flows denominated in U.S. dollars, and we do not enter into derivative transactions for trading or speculative purposes, we do not believe that these charges or gains are indicative of our core operating performance.

(d) This adjustment eliminates $0.04 million in expenses related to the repurchase of a portion of the 2021 Notes and the Exchangeable Notes in the first quarter of 2019.

(e) This adjustment eliminates a $2.3 million excess and obsolete inventory charge that we recorded in relation to the U.S. Government's export restrictions on Huawei, which is a downstream customer of some of our direct customers. As this charge meaningfully impacted our operational results and is not expected to represent an ongoing operating expense subject to our ability to foresee and control, we believe our operating performance results are more meaningfully compared if this charge is excluded.

(f) This adjustment eliminates $1.2 million in expenses related to the write-off of the damaged work in process wafers and charges for facility recovery. These charges are inconsistent in amount and frequency, and we do not believe that these charges are indicative of our core operation performance and have been excluded for comparative purposes.

(g) For the nine months ended September 30, 2020, this adjustment primarily eliminates non-recurring professional service fees and expenses incurred in connection with certain treasury and finance initiatives incurred during the three months ended March 31, 2020. For the nine months ended September 30, 2019, this adjustment primarily eliminates a $0.5 million legal settlement charge related to dispute with a prior customer and a legal expense related to the indemnification of a former employee, which is borne by us under a negotiated separation agreement during the three months ended March 31, 2019. We do not believe that these charges are indicative of our core operating performance and have been excluded for comparative purposes.

There was no tax impact from the adjustments to net income (loss) to calculate our Adjusted Net Income from continuing operations for the nine months ended September 30, 2020 and 2019 due to net operating loss carry-forwards available to offset taxable income and full allowance for deferred tax assets. We believe that all adjustments to net income (loss) from continuing operations used to calculate Adjusted Net Income from continuing operations were applied consistently to the periods presented.

Adjusted Net Income has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our results as reported under U.S. GAAP. Some of these limitations are:

- Adjusted Net Income does not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted Net Income does not consider the potentially dilutive impact of issuing equity-based compensation to our management team and employees;
- Adjusted Net Income does not reflect the costs of holding certain assets and liabilities in foreign currencies; and
- other companies in our industry may calculate Adjusted Net Income differently than we do, limiting its usefulness as a comparative measure.

Because of these limitations, Adjusted Net Income should not be considered as a measure of profitability of our business. We compensate for these limitations by relying primarily on our U.S. GAAP results and using Adjusted Net Income only supplementally.

Factors Affecting Our Results of Operations

Net *Sales.* We derive substantially all of our sales (net of sales returns and allowances) from our standard products business. We outsource manufacturing of advanced OLED products to external 12-inch foundries. 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 Korea, the United States, Japan and Greater China. Our network of authorized agents and distributors is in the United States, Europe and the Asia Pacific region.

We recognize revenue when risk and reward of ownership pass to the customer either upon shipment, upon product delivery at the customer's location or upon customer acceptance, depending on the terms of the arrangement. For the nine months ended September 30, 2020 and 2019, we sold products to 170 customers, in each period, and our net sales to our ten largest customers represented 88% and 90% of our net sales — standard products business, respectively.

We will provide the Transitional Fab 3 Foundry Services for a period up to three years after the sale of the Foundry Services Group business and Fab 4. For the periods prior to the closing of the sale of the Foundry Services Group business and Fab 4 (which is accounted for as a discontinued operation beginning in the first quarter of 2020), revenue derived from the Transitional Fab 3 Foundry Services is recorded at cost in both our continuing and discontinued operations. Following the consummation of the sale, and for up to three years, we are expected to provide the Transitional Fab 3 Foundry Services at an agreed upon cost plus mark-up.

Gross Profit. Our overall gross profit generally fluctuates as a result of changes in overall sales volumes and in the average selling prices of our products and services. Other factors that influence our gross profit include changes in product mix, the introduction of new products and services and subsequent generations of existing products and services, shifts in the utilization of our manufacturing facility and the yields achieved by our manufacturing operations, changes in material, labor and other manufacturing costs including outsourced manufacturing expenses, and variation in depreciation expense.

Average Selling Prices. Average selling prices for our products tend to be highest at the time of introduction of new products which utilize the latest technology and tend to decrease over time as such products mature in the market and are replaced by next generation products. We strive to offset the impact of declining selling prices for existing products through our product development activities and by introducing 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 preclude losses from product and productive capacity obsolescence.

Material Costs. Our material costs consist of costs of raw materials, such as silicon wafers, chemicals, gases and tape and packaging supplies. We use processes that require specialized raw materials, such as silicon wafers, that are generally available from a limited number of suppliers. If demand increases or supplies decrease, the costs of our raw materials could increase significantly.

Labor Costs. A significant portion of our employees are located in Korea. Under Korean labor laws, most employees and certain 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, 2020, approximately 98% of our employees were eligible for severance benefits.

Depreciation Expense. We periodically evaluate the carrying values of long-lived assets, including property, plant and equipment and intangible assets, as well as the related depreciation periods. We depreciated our property, plant and equipment using the straight-line method over the estimated useful lives of our assets. Depreciation rates vary from 30-40 years on buildings to 5 to 12 years for certain equipment and assets. Our evaluation of carrying values is based on various analyses including cash flow and profitability projections. If our projections indicate that future undiscounted cash flows are not sufficient to recover the carrying values of the related long-lived assets, the carrying value of the assets is impaired and will be reduced, with the reduction charged to expense so that the carrying value is equal to fair value.

Selling Expenses. We sell our products worldwide through a direct sales force as well as a network of sales agents and representatives to OEMs, including major branded customers and contract manufacturers, and indirectly through distributors. Selling expenses consist primarily of the personnel costs for the members of our direct sales force, a network of sales representatives and other costs of distribution. Personnel costs include base salary, benefits and incentive compensation.

General and Administrative Expenses. General and administrative expenses consist of the costs of various corporate operations, including finance, legal, human resources and other administrative functions. These expenses primarily consist of payroll-related expenses, consulting and other professional fees and office facility-related expenses.

Research and Development. The rapid technological change and product obsolescence that characterize our industry require us to make continuous investments in research and development. Product development time frames vary but, in general, we incur research and development costs one to two years before generating sales from the associated new products. These expenses include personnel costs for members of our engineering workforce, cost of photomasks, silicon wafers and other non-recurring engineering charges related to product design. Additionally, we develop base line process technology through experimentation and through the design and use of characterization wafers that help achieve commercially feasible yields for new products. The majority of research and development expenses of our display business are material and design-related costs for OLED display driver IC product development involving 40-nanometer or finer processes. The majority of research and development expenses of our power business are certain equipment, material and design-related costs for power discrete products and material and design-related costs for power IC products. Power IC uses standard BCD process technologies which can be sourced from multiple foundries, including Fab 4.

Interest Expense. Our interest expense was incurred primarily under our 2021 Notes and our Exchangeable Notes. On October 2, 2020, we redeemed all outstanding 2021 Notes. We will not incur interest expense associated with the 2021 Notes from and after October 2, 2020.

Impact of Foreign Currency Exchange Rates on Reported Results of Operations. Historically, a portion of our revenues and greater than the majority of our operating expenses and costs of sales have been denominated in non-U.S. currencies, principally the Korean won, and we expect that this will remain true in the future. Because we report our results of operations in U.S. dollars converted from our non-U.S. revenues and expenses based on monthly average exchange rates, changes in the exchange rate between the Korean won and the U.S. dollar could materially impact our reported results of operations and distort period to period comparisons. In particular, because of the difference in the amount of our consolidated revenues and expenses that are in U.S. dollars relative to Korean won, depreciation in the U.S. dollar relative to the Korean won could result in a material increase in reported costs relative to revenues, and therefore could cause our profit margins and operating income (loss) to appear to decline materially, particularly relative to prior periods. The converse is true if the U.S. dollar were to appreciate relative to the Korean won. Moreover, our foreign currency gain or loss would be affected by changes in the exchange rate between the Korean won and the U.S. dollar, as a substantial portion of non-cash translation gain or loss is associated with the intercompany long-term loans to our Korean subsidiary, which is denominated in U.S. dollars. As of September 30, 2020, the outstanding intercompany loan balance including accrued interest between our Korean subsidiary and our Dutch subsidiary was $446.0 million. As a result of such foreign currency fluctuations, it could be more difficult to detect underlying trends in our business and results of operations. In addition, to the extent that fluctuations in currency exchange rates cause our results of operations to differ from our expectations or the expectations of our investors, the trading price of our stock could be adversely affected.

From time to time, we may engage in exchange rate hedging activities in an effort to mitigate the impact of exchange rate fluctuations. Our Korean subsidiary enters into foreign currency forward and zero cost collar contracts in order to mitigate a portion of the impact of U.S. dollar-Korean won exchange rate fluctuations on our operating results. Obligations under these foreign currency forward and zero cost collar contracts must be cash collateralized if our exposure exceeds certain specified thresholds. These forward and zero cost collar contracts may be terminated by a counterparty in a number of circumstances, including if our long-term debt rating falls below B-/B3 or if our total cash and cash equivalents is less than $30.0 million at the end of a fiscal quarter unless a waiver is obtained from the counterparty. We cannot assure that any hedging technique we implement will be effective. If our hedging activities are not effective, changes in currency exchange rates may have a more significant impact on our results of operations.

Foreign Currency Gain or Loss. Foreign currency translation gains or losses on transactions by us or our subsidiaries in a currency other than our or our subsidiaries' functional currency are included in foreign currency gain (loss), net in our statements of operations. A substantial portion of this net foreign currency gain or loss relates to non-cash translation gain or loss related to the principal balance of intercompany balances at our Korean subsidiary that are denominated in U.S. dollars. This gain or loss results from fluctuations in the exchange rate between the Korean won and U.S. dollar.

Income Taxes. We record our income taxes in each of the tax jurisdictions in which we operate. This process involves using an asset and liability approach whereby deferred tax assets and liabilities are recorded for differences in the financial reporting bases and tax bases of our assets and liabilities. We exercise significant management judgment in determining our provision for income taxes, deferred tax assets and liabilities. We assess whether it is more likely than not that the deferred tax assets existing at the period-end will be realized in future periods. In such assessment, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent results of operations. In the event we were to determine that we would be able to realize the deferred income tax assets in the future in excess of their net recorded amount, we would adjust the valuation allowance, which would reduce the provision for income taxes.

We are subject to income- or non-income-based tax examinations by tax authorities of the U.S., Korea and multiple other foreign jurisdictions, where applicable, for all open tax years. Significant estimates and judgments are required in determining our worldwide provision for income- or non-income based taxes. Some of these estimates are based on interpretations of existing tax laws or regulations. The ultimate amount of tax liability may be uncertain as a result.

Discontinued Operations. On March 30, 2020, we entered into the Business Transfer Agreement for the sale of our Foundry Services Group business and Fab 4 to the Buyer. As a result, the results of the Foundry Services Group business were classified as discontinued operations in our consolidated statements of operations and excluded from both continuing operations and segment results for all periods presented. On September 1, 2020, we completed the sale for a purchase price equal to approximately $350.6 million in cash.

Capital Expenditures. We primarily invest in manufacturing equipment, software design tools and other tangible assets mainly for fabrication facility maintenance, capacity expansion and technology improvement. Capacity expansions and technology improvements typically occur in anticipation of increases in demand. We typically pay for capital expenditures in partial installments with portions due on order, delivery and final acceptance. Our capital expenditures mainly include our payments for the purchase of property, plant and equipment.

Inventories. We monitor our inventory levels in light of product development changes and market expectations. We may be required to take additional charges for quantities in excess of demand, cost in excess of market value and product age. Our analysis may take into consideration historical usage, expected demand, anticipated sales price, new product development schedules, the effect new products might have on the sales of existing products, product age, customer design activity, customer concentration and other factors. These forecasts require us to estimate our ability to predict demand for current and future products and compare those estimates with our current inventory levels and inventory purchase commitments. Our forecasts for our inventory may differ from actual inventory use.

Results of Operations – Comparison of Three Months Ended September 30, 2020 and 2019

The following table sets forth consolidated results of operations for the three months ended September 30, 2020 and 2019:

	Three Months Ended September 30, 2020		Three Months Ended September 30, 2019		
	Amount	% of Total revenues	Amount	% of Total revenues	Change Amount
			(In millions)		
Revenues					
Net sales – standard products business	$ 116.3	93.1%	$ 139.3	93.4%	$ (23.0)
Net sales – transitional Fab 3 foundry services	8.6	6.9	9.9	6.6	(1.3)
Total revenues	124.8	100.0	149.2	100.0	(24.4)
Cost of sales					
Cost of sales – standard products business	87.5	70.1	104.0	69.7	(16.5)
Cost of sales – transitional Fab 3 foundry services	8.7	7.0	9.9	6.6	(1.2)
Total cost of sales	96.2	77.1	113.9	76.4	(17.7)
Gross profit	28.6	22.9	35.3	23.6	(6.7)
Selling, general and administrative expenses	12.9	10.3	10.7	7.2	2.2
Research and development expenses	12.5	10.0	10.2	6.9	2.2
Operating income	3.2	2.6	14.3	9.6	(11.1)
Interest expense	(5.5)	(4.4)	(5.5)	(3.7)	0.1
Foreign currency gain (loss), net	8.9	7.1	(22.0)	(14.7)	30.8
Others, net	0.7	0.6	0.7	0.5	0.0
	4.1	3.3	(26.8)	(18.0)	30.9
Income (loss) from continuing operations before income tax expense	7.3	5.9	(12.5)	(8.4)	19.8
Income tax expense (benefit)	(1.1)	(0.9)	1.7	1.2	(2.9)
Income (loss) from continuing operations	8.5	6.8	(14.2)	(9.5)	22.7
Income from discontinued operations, net of tax	264.5	211.9	12.6	8.5	251.9
Net income (loss)	$ 273.0	218.7	$ (1.6)	(1.1)	$ 274.6

The following sets forth information relating to our continuing operations:

	Three Months Ended September 30, 2020 Amount	Three Months Ended September 30, 2020 % of Total Revenues	Three Months Ended September 30, 2019 Amount	Three Months Ended September 30, 2019 % of Total Revenues	Change Amount
			(In millions)		
Revenues					
Net sales – standard products business					
Display Solutions	$ 69.6	55.7%	$ 90.6	60.7%	$ (21.0)
Power Solutions	46.7	37.4	48.7	32.7	(2.0)
Total standard products business	116.3	93.1	139.3	93.4	(23.0)
Net sales – transitional Fab 3 foundry services	8.6	6.9	9.9	6.6	(1.3)
Total revenues	$ 124.8	100.0%	$ 149.2	100.0%	$ (24.4)

	Three Months Ended September 30, 2020 Amount	Three Months Ended September 30, 2020 % of Net sales	Three Months Ended September 30, 2019 Amount	Three Months Ended September 30, 2019 % of Net sales	Change Amount
			(In millions)		
Gross Profit					
Gross profit – standard products business	$ 28.8	24.7%	$ 35.3	25.3%	$ (6.5)
Gross profit – transitional Fab 3 foundry services	(0.2)	(2.1)	—	—	(0.2)
Total gross profit	$ 28.6	22.9%	$ 35.3	23.6%	$ (6.7)

Revenues

Total revenues were $124.8 million for the three months ended September 30, 2020, a $24.4 million, or 16.3%, decrease compared to $149.2 million for the three months ended September 30, 2019. This decrease was primarily due to a decrease in revenue related to our standard products business as described below.

The standard products business. Net sales from our standard products business were $116.3 million for the three months ended September 30, 2020, a $23.0 million, or 16.5%, decrease compared to $139.3 million for the three months ended September 30, 2019. The decrease in net sales from our Display Solutions business line was primarily attributable to the U.S. Government's export restrictions on Huawei, which is a downstream customer of some of our direct customers, that impacted the shipment of certain mobile OLED display driver ICs to our customers, and a strategic reduction of our lower margin non-auto LCD DDIC business. The decrease in net sales from our Power Solutions business line was primarily attributable to the Fab 3 power outage that affected our ability to meet customer demand for some of our Power Solution products during the three months ended September 30, 2020.

The transitional Fab 3 foundry services. Net sales from the transitional Fab 3 foundry services were $8.6 million and $9.9 million for the three months ended September 30, 2020 and 2019, respectively.

Gross Profit

Total gross profit was $28.6 million for the three months ended September 30, 2020 compared to $35.3 million for the three months ended September 30, 2019, a $6.7 million, or 18.9%, decrease. Gross profit as a percentage of net sales for the three months ended September 30, 2020 decreased to 22.9% compared to 23.6% for the three months ended September 30, 2019. The decrease in gross profit and gross profit as a percentage of net sales was primarily due to a decrease in gross profit and gross profit as a percentage of net sales from our standard products business as further described below.

The standard products business. Gross profit from our standard products business was $28.8 million for the three months ended September 30, 2020, which represented a $6.5 million, or 18.4%, decrease from gross profit of $35.3 million for the three months ended September 30, 2019. Gross profit as a percentage of net sales for the three months ended September 30, 2020 decreased to 24.7% compared to 25.3% for the three months ended September 30, 2019. The decrease was primarily attributable to a $2.3 million of unexpected excess and obsolete inventory charge that we recorded in the third quarter of 2020 in relation to the U.S. Government's export restrictions on Huawei, which is a downstream customer of some of our direct customers. The delayed recovery of Fab 3 from the power outage, which resulted in a lower than anticipated utilization rate, also negatively affected both gross profit and gross profit as a percentage of net sales.

Net Sales – Standard Products Business by Geographic Region

We report net sales – standard products business by geographic region based on the location to which the products are billed. The following table sets forth our net sales—standard products business by geographic region and the percentage of total net sales—standard products business represented by each geographic region for the three months ended September 30, 2020 and 2019:

	Three Months Ended September 30, 2020		Three Months Ended September 30, 2019		
	Amount	% of Net Sales – standard products business	Amount	% of Net Sales – standard products business	Change Amount
			(In millions)		
Korea	$ 28.4	24.4%	$ 36.1	25.9%	$ (7.7)
Asia Pacific (other than Korea)	84.2	72.4	100.9	72.4	(16.7)
United States	1.8	1.5	0.5	0.3	1.3
Europe	1.5	1.2	1.5	1.1	(0.1)
Others	0.5	0.4	0.3	0.2	0.2
	$ 116.3	100.0%	$ 139.3	100.0%	$ (23.0)

Net sales – standard products business in Korea for the three months ended September 30, 2020 decreased from $36.1 million to $28.4 million compared to the three months ended September 30, 2019, which represented a decrease of $7.7 million, or 21.4%, primarily due to a strategic reduction of our lower margin non-auto LCD DDIC business and lower demand for power products such as MOSFETs primarily for TV and smartphone applications, which was offset in part by an increase in revenue related to our mobile OLED display driver ICs due to an increase in demand for production of new OLED smartphones by Chinese manufacturers due in part to the geographic diversification of our OLED product portfolio amid a COVID-19-related disruption. This increase continued until the U.S. Government's export restrictions on Huawei, which is a downstream customer of some of our direct customers, impacted the shipment of certain mobile OLED display driver ICs to certain of our customers.

Net sales – standard products business in Asia Pacific (other than Korea) for the three months ended September 30, 2020 decreased to $84.2 million from $100.9 million in the three months ended September 30, 2019, which represented a decrease of $16.7 million, or 16.5%, primarily due to the U.S. Government's export restrictions on Huawei, which is a downstream customer of some of our direct customers, that impacted the shipment of certain mobile OLED display driver ICs to our customers.

Operating Expenses

Selling, General and Administrative Expenses. Selling, general and administrative expenses were $12.9 million, or 10.3%, of total revenues, for the three months ended September 30, 2020, compared to $10.7 million, or 7.2%, of total revenues, for the three months ended September 30, 2019. The increase of $2.2 million, or 20.6%, was primarily attributable to an increase in employee compensation, including equity-based compensation.

Research and Development Expenses. Research and development expenses were $12.5 million, or 10.0%, of total revenues, for the three months ended September 30, 2020, compared to $10.2 million, or 6.9%, of total revenues, for the three months ended September 30, 2019. The increase of $2.2 million, or 21.9%, was primarily attributable to an increase in development activities for our 28-nanometer OLED display driver ICs and an increase in employee compensation, including equity-based compensation.

Operating Income

As a result of the foregoing, operating income of $3.2 million was recorded for the three months ended September 30, 2020, compared to operating income of $14.3 million the three months ended September 30, 2019. As discussed above, the decrease in operating income of $11.1 million resulted primarily from a $6.7 million decrease in gross profit, a $2.2 million increase in selling, general and administrative expenses and a $2.2 million increase in research and development expenses.

Other Income

Interest Expense. Interest expenses were $5.5 million for each of the three months ended September 30, 2020 and September 30, 2019.

Foreign Currency Gain (Loss), Net. Net foreign currency gain for the three months ended September 30, 2020 was $8.9 million compared to net foreign currency loss of $22.0 million for the three months ended September 30, 2019. The net foreign currency gain for the three months ended September 30, 2020 was due to the appreciation in value of the Korean won relative to the U.S. dollar during the period. The net foreign currency loss for the three months ended September 30, 2019 was due to the depreciation in value of the Korean won relative to the U.S. dollar during the period.

A substantial portion of our net foreign currency gain or loss is non-cash translation gain or loss associated with intercompany long-term loans to our Korean subsidiary, which are denominated in U.S. dollars, and are affected by changes in the exchange rate between the Korean won and the U.S. dollar. As of September 30, 2020 and September 30, 2019, the outstanding intercompany loan balances including accrued interest between our Korean subsidiary and our Dutch subsidiary were $446.0 million and $679.6 million, respectively. The decrease in the outstanding intercompany loan balances including accrued interest was primarily attributable to our Korean subsidiary's repayment of certain loans by our Dutch subsidiary to fund the redemption of the outstanding 2021 Notes on October 2, 2020. Foreign currency translation gain or loss from intercompany balances were included in determining our consolidated net income since the intercompany balances were not considered long-term investments in nature because management intended to settle these intercompany balances at their respective maturity dates.

Others, Net. Others were comprised of rental income, interest income, and gains and losses from valuation of derivatives which were designated as hedging instruments. Others for the three months ended September 30, 2020 and September 30, 2019 was $0.7 million in each period.

Income Tax Expense (Benefit)

Income tax benefit for the three months ended September 30, 2020 was $1.1 million, which was primarily attributable to the foreign translation loss realized by our Korean subsidiary upon the repayment of a part of its intercompany loans by the Dutch subsidiary to fund the redemption of the 2021 Notes. Income tax expense of $1.7 million for the three month ended September 30, 2019 was primarily attributable to interest on intercompany loan balances. Income tax expense was recorded for our Korean subsidiary based on the estimated taxable income for the respective periods, combined with its ability to utilize net operating loss carryforwards up to 60% in 2019.

Income (Loss) from Continuing Operations

As a result of the foregoing, income from continuing operations increased by $22.7 million for the three months ended September 30, 2020 compared to the three months ended September 30, 2019. As discussed above, the increase in income from continuing operations primarily resulted from a $30.8 million improvement in net foreign currency loss and a $2.9 million decrease in income tax expense, which was offset in part by an $11.1 million decrease in operating income.

Income from Discontinued Operations, Net of Tax

On March 30, 2020, we entered into the Business Transfer Agreement for the sale of our Foundry Services Group business and Fab 4. As a result, the results of the Foundry Services Group business were classified as discontinued operations in our consolidated statements of operations and excluded from our continuing operations for all periods presented.

Income from discontinued operations, net of tax for the three months ended September 30, 2020 was $264.5 million, compared to income from discontinued operations, net of tax of $12.6 million for the three months ended September 30, 2019. The $251.9 million increase in income from discontinued operations, net of tax primarily resulted from a $287.1 million increase in gain on sale of discontinued operations, which was offset in part by a $14.5 million increase in income tax expense, a $10.8 million increase in transaction costs, a $7.1 million increase in restructuring and other charges and a $5.4 million decrease in gross profit.

Net Income (Loss)

As a result of the foregoing, net income of $273.0 million was recorded for the three months ended September 30, 2020 compared to net loss of $1.6 million for the three months ended September 30, 2019. As discussed above, the increase in net income of $274.6 million primarily resulted from a $251.9 million increase in income from discontinued operations, net of tax, mainly attributable to the completion of the sale of the Foundry Service Group business and Fab 4, and a $22.7 million improvement in loss from continuing operations.

Table of Contents

Results of Operations – Comparison of Nine Months Ended September 30, 2020 and 2019

The following table sets forth consolidated results of operations for the nine months ended September 30, 2020 and 2019:

	Nine Months Ended September 30, 2020		Nine Months Ended September 30, 2019		
	Amount	% of Total revenues	Amount	% of Total revenues	Change Amount
			(In millions)		
Revenues					
Net sales – standard products business	$336.0	92.3%	$371.5	93.5%	$ (35.6)
Net sales – transitional Fab 3 foundry services	28.2	7.7	25.8	6.5	2.4
Total revenues	364.1	100.0	397.3	100.0	(33.2)
Cost of sales					
Cost of sales – standard products business	245.9	67.5	285.6	71.9	(39.7)
Cost of sales – transitional Fab 3 foundry services	28.3	7.8	25.8	6.5	2.6
Total cost of sales	274.3	75.3	311.4	78.4	(37.2)
Gross profit	89.9	24.7	85.9	21.6	4.0
Selling, general and administrative expenses	37.4	10.3	33.8	8.5	3.6
Research and development expenses	34.1	9.4	34.0	8.6	0.0
Other charges	0.6	0.2	—	—	0.6
Operating income	17.8	4.9	18.0	4.5	(0.2)
Interest expense	(16.5)	(4.5)	(16.6)	(4.2)	0.1
Foreign currency loss, net	(13.6)	(3.7)	(44.2)	(11.1)	30.5
Loss on early extinguishment of long-term borrowings, net	—	—	(0.0)	(0.0)	0.0
Others, net	2.3	0.6	1.8	0.5	0.5
	(27.8)	(7.6)	(59.0)	(14.9)	31.2
Loss from continuing operations before income tax expense	(10.0)	(2.7)	(41.0)	(10.3)	31.0
Income tax expense	0.8	0.2	3.3	0.8	(2.5)
Loss from continuing operations	(10.8)	(3.0)	(44.3)	(11.1)	33.4
Income (loss) from discontinued operations, net of tax	289.2	79.4	(1.0)	(0.2)	290.2
Net income (loss)	$278.4	76.5	$ (45.3)	(11.4)	$323.6

The following sets forth information relating to our continuing operations:

	Nine Months Ended September 30, 2020		Nine Months Ended September 30, 2019		
	Amount	% of Total Revenues	Amount	% of Total Revenues	Change Amount
			(In millions)		
Revenues					
Net sales – standard products business					
Display Solutions	$216.4	59.4%	$233.0	58.7%	$ (16.7)
Power Solutions	119.6	32.8	138.5	34.9	(18.9)
Total standard products business	336.0	92.3	371.5	93.5	(35.6)
Net sales – transitional Fab 3 foundry services	28.2	7.7	25.8	6.5	2.4
Total revenues	$364.1	100.0%	$397.3	100.0%	$ (33.2)

	Nine Months Ended September 30, 2020		Nine Months Ended September 30, 2019		
	Amount	% of Net sales	Amount	% of Net sales	Change Amount
			(In millions)		
Gross Profit					
Gross profit – standard products business	$ 90.0	26.8%	$ 85.9	23.1%	$ 4.1
Gross profit – transitional Fab 3 foundry services	(0.2)	(0.6)	—	—	(0.2)
Total gross profit	$ 89.9	24.7%	$ 85.9	21.6%	$ 4.0

Revenues

Total revenues were $364.1 million for the nine months ended September 30, 2020, a $33.2 million, or 8.4%, decrease compared to $397.3 million for the nine months ended September 30, 2019. This decrease was primarily due to a decrease in revenue related to our standard products business as described below.

The standard products business. Net sales from our standard products business were $336.0 million for the nine months ended September 30, 2020, a $35.6 million, or 9.6%, decrease compared to $371.5 million for the nine months ended September 30, 2019. The decrease in net sales from our Display Solutions business line was primarily attributable to a strategic reduction of our lower margin non-auto LCD DDIC business and a decrease in revenue related to our mobile OLED display driver ICs as a result of COVID-19, which negatively affected the global smartphone market in 2020. The U.S. Government's export restrictions on Huawei, which is a downstream customer of some of our direct customers, also impacted the shipment of certain mobile OLED display driver ICs to certain of our customers. The decrease in net sales from our Power Solutions business line was primarily attributable to the significant global macro-economic market disruption due to COVID-19, which affected customer demand for some of our Power Solution products.

The transitional Fab 3 foundry services. Net sales from the transitional Fab 3 foundry services were $28.2 million and $25.8 million for the nine months ended September 30, 2020 and 2019, respectively.

Gross Profit

Total gross profit was $89.9 million for the nine months ended September 30, 2020 compared to $85.9 million for the nine months ended September 30, 2019, a $4.0 million, or 4.6%, increase. Gross profit as a percentage of net sales for the nine months ended September 30, 2020 increased to 24.7% compared to 21.6% for the nine months ended September 30, 2019. The increase in gross profit and gross profit as a percentage of net sales was due to the increase in gross profit and gross profit as a percentage of net sales from our standard products business as further described below.

The standard products business. Gross profit from our standard products business was $90.0 million for the nine months ended September 30, 2020, which represented a $4.1 million, or 4.8%, increase from gross profit of $85.9 million for the nine months ended September 30, 2019. Gross profit as a percentage of net sales for the nine months ended September 30, 2020 increased to 26.8% compared to 23.1% for the nine months ended September 30, 2019. The increase in both gross profit and gross profit as a percentage of net sales was primarily attributable to inventory reserves related to certain legacy display products that were recorded in the first half of 2019 and an improved product mix, which was offset in part by a $2.3 million of unexpected excess and obsolete inventory charge that we recorded in the third quarter of 2020 in relation to the U.S. Government's export restrictions on Huawei, which is a downstream customer of some of our direct customers. The delayed recovery of Fab 3 from the power outage, resulting in a lower than anticipated utilization rate, also negatively affected both gross profit and gross profit as a percentage of net sales.

Net Sales – Standard Products Business by Geographic Region

We report net sales – standard products business by geographic region based on the location to which the products are billed. The following table sets forth our net sales—standard products business by geographic region and the percentage of total net sales—standard products business represented by each geographic region for the nine months ended September 30, 2020 and 2019:

	Nine Months Ended September 30, 2020		Nine Months Ended September 30, 2019		
	Amount	% of Net Sales – standard products business	Amount	% of Net Sales – standard products business	Change Amount
			(In millions)		
Korea	$ 81.1	24.2%	$ 107.3	28.9%	$ (26.2)
Asia Pacific (other than Korea)	245.9	73.2	258.3	69.5	(12.3)
United States	4.0	1.2	1.6	0.4	2.4
Europe	3.3	1.0	3.5	.0.9	(0.2)
Others	1.6	0.5	0.8	0.2	0.8
	$336.0	100.0%	$371.5	100.0%	$ (35.6)

Net sales – standard products business in Korea for the nine months ended September 30, 2020 decreased from $107.3 million to $81.1 million compared to the nine months ended September 30, 2019, which represented a decrease of $26.2 million, or 24.4%, primarily due to a strategic reduction of our lower margin non-auto LCD DDIC business and lower demand for power products such as MOSFETs primarily for TV and smartphone applications, which was offset in part by an increase in revenue related to our mobile OLED display driver ICs due to an increase in demand for production of new OLED smartphones by Chinese manufacturers due in part to the geographic diversification of our OLED product portfolio amid a COVID-19-related disruption. This increase continued until the U.S. Government's export restrictions on Huawei, which is a downstream customer of some of our direct customers, impacted the shipment of certain mobile OLED display driver ICs to certain of our customers.

Net sales – standard products business in Asia Pacific (other than Korea) for the nine months ended September 30, 2020 decreased to $245.9 million from $258.3 million in the nine months ended September 30, 2019, which represented a decrease of $12.3 million, or 4.8%, primarily due to a decrease in revenue related to our mobile OLED display driver ICs as a result of COVID-19, which negatively has affected the global smartphone market in 2020. The U.S. Government's export restrictions on Huawei, which is a downstream customer of some of our direct customers, also impacted the shipment of certain mobile OLED display driver ICs to certain of our customers.

Operating Expenses

Selling, General and Administrative Expenses. Selling, general and administrative expenses were $37.4 million, or 10.3%, of total revenues, for the nine months ended September 30, 2020, compared to $33.8 million, or 8.5%, of total revenues, for the nine months ended September 30, 2019. The increase of $3.6 million, or 10.6%, was primarily attributable to an increase in employee compensation, including equity-based compensation, and legal and consulting service fees, which was offset in part by a $0.5 million legal settlement charge related to dispute with a prior customer recorded in the first quarter of 2019.

Research and Development Expenses. Research and development expenses were $34.1 million, or 9.4%, of total revenues, for the nine months ended September 30, 2020, which remained flat, compared to $34.0 million, or 8.6%, of total revenues, for the nine months ended September 30, 2019.

Other Charges. Other charges were $0.6 million for the nine months ended September 30, 2020, which consisted of professional service fees and expenses incurred in connection with certain treasury and finance initiatives incurred during the three months ended March 31, 2020.

Operating Income

As a result of the foregoing, operating income of $17.8 million was recorded for the nine months ended September 30, 2020 compared to operating income of $18.0 million the nine months ended September 30, 2019. As discussed above, the decrease in operating income of $0.2 million resulted primarily from a $3.6 million increase in selling, general and administrative expenses and a $0.6 million increase in other charges, which was nearly offset by a $4.0 million increase in gross profit.

Other Income

Interest Expense. Interest expenses were $16.5 million and $16.6 million for the nine months ended September 30, 2020 and September 30, 2019, respectively.

Foreign Currency Loss, Net. Net foreign currency loss for the nine months ended September 30, 2020 was $13.6 million compared to net foreign currency loss of $44.2 million for the nine months ended September 30, 2019. The net foreign currency loss for the nine months ended September 30, 2020 and September 30, 2019 was due to the depreciation in value of the Korean won relative to the U.S. dollar during each period.

A substantial portion of our net foreign currency gain or loss is non-cash translation gain or loss associated with intercompany long-term loans to our Korean subsidiary, which are denominated in U.S. dollars, and are affected by changes in the exchange rate between the Korean won and the U.S. dollar. As of September 30, 2020 and September 30, 2019, the outstanding intercompany loan balances including accrued interest between our Korean subsidiary and our Dutch subsidiary were $446.0 million and $679.6 million, respectively. The decrease in the outstanding intercompany loan balances including accrued interest was primarily attributable to our Korean subsidiary's repayment of certain loans by our Dutch subsidiary to fund the redemption of the outstanding 2021 Notes on October 2, 2020. Foreign currency translation gain or loss from intercompany balances were included in determining our consolidated net income since the intercompany balances were not considered long-term investments in nature because management intended to settle these intercompany balances at their respective maturity dates.

Loss on Early Extinguishment of Long-Term Borrowings, Net. For the nine months ended September 30, 2019, we repurchased a principal amount of $0.3 million and $0.9 million of the 2021 Notes and the Exchangeable Notes, respectively. In connection with these repurchases, we recognized a $0.04 million net loss.

Others, Net. Others were comprised of rental income, interest income, and gains and losses from valuation of derivatives which were designated as hedging instruments. Others for the nine months ended September 30, 2020 and September 30, 2019 was $2.3 million and $1.8 million, respectively.

Income Tax Expense

Income tax expense was $0.8 million and $3.3 million for the nine months ended September 30, 2020 and 2019, respectively. Income tax expense for the nine months ended September 30, 2020 was primarily attributable to interest on intercompany loan balances, which was offset in part by the income tax benefit due mainly to the foreign translation loss realized by our Korean subsidiary upon the repayment of a part of its intercompany loans by the Dutch subsidiary to fund the redemption of the 2021 Notes. Income tax expense for the nine month ended September 30, 2019 was primarily attributable to interest on intercompany loan balances. Income tax expense was recorded for our Korean subsidiary based on the estimated taxable income for the respective periods, combined with its ability to utilize net operating loss carryforwards up to 60% in 2019 and 2020.

Loss from Continuing Operations

As a result of the foregoing, loss from continuing operations improved by $33.4 million for the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019. As discussed above, the improvement in loss from continuing operations primarily resulted from a $30.5 million improvement in net foreign currency loss and a $2.5 million decrease in income tax expense.

Income (Loss) from Discontinued Operations, Net of Tax

On March 30, 2020, we entered into the Business Transfer Agreement for the sale of our Foundry Services Group business and Fab 4. As a result, the results of the Foundry Services Group business were classified as discontinued operations in our consolidated statements of operations and excluded from our continuing operations for all periods presented.

Income from discontinued operations, net of tax for the nine months ended September 30, 2020 was $289.2 million compared to loss from discontinued operations, net of tax of $1.0 million for the nine months ended September 30, 2019. The $290.2 million increase in income from discontinued operations, net of tax primarily resulted from a $287.1 million increase in gain on sale of discontinued operations, a $30.4 million increase in gross profit due in part to depreciation and amortization associated with the assets classified as those held for sale having been ceased starting in the second quarter of 2020, a $3.3 million decrease in selling, general and administrative expenses and a $2.8 million decrease in research and development expenses, which were offset in part by a $15.7 million increase in income tax expense, a $10.8 million increase in transaction costs, a $5.8 million increase in restructuring and other charges.

Net Income (Loss)

As a result of the foregoing, net income of $278.4 million was recorded for the nine months ended September 30, 2020 compared to net loss of $45.3 million for the nine months ended September 30, 2019. As discussed above, the increase in net income of $323.6 million primarily resulted from a $290.2 million increase in income from discontinued operations, net of tax, mainly attributable to the completion of the sale of the Foundry Service Group business and Fab 4, and a $33.4 million improvement in loss from continuing operations.

Liquidity and Capital Resources

Our principal capital requirements are to fund sales and marketing, invest in research and development and capital equipment, to make debt service payments and to fund working capital needs. We calculate working capital as current assets less current liabilities.

Our principal sources of liquidity are our cash, cash equivalents, cash flows from operations and financing activities. Our ability to manage cash and cash equivalents may be limited, as our primary cash flows are dictated by the terms of our sales and supply agreements, contractual obligations, debt instruments and legal and regulatory requirements. From time to time, we may sell accounts receivable to third parties under factoring agreements or engage in accounts receivable discounting to facilitate the collection of cash. For a description of our factoring arrangements and accounts receivable discounting, please see "Item 1. Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Note 3. Sales of Accounts Receivable and Receivable Discount Program" included elsewhere in this Report. In addition, from time to time, we may make payments to our vendors on extended terms with their consent. As of September 30, 2020, we do not have any accounts payable on extended terms or payment deferment with our vendors.

On September 1, 2020, we completed the previously announced sale of our Foundry Services Group business and Fab 4 to the Buyer in exchange for a purchase price equal to approximately $350.6 million, which included an estimated positive working capital adjustment of approximately $5.9 million, pursuant to the terms of the Business Transfer Agreement, which was entered into on March 30, 2020. The purchase price was paid in a combination of U.S. Dollars in the amount of $46.5 million and Korean Won in the amount of approximately KRW 360.6 billion.

On October 2, 2020, we redeemed of all of our outstanding 2021 Notes. We paid approximately $227.4 million to fully redeem all of the outstanding $224.25 million aggregate principal amount of the 2021 Notes at a redemption price equal to the sum of 100% of the principal amount plus accrued and unpaid interest thereon.

On January 17, 2017, we issued an aggregate of $86.3 million in principal amount of our Exchangeable Notes. We may, from time to time, repurchase a portion of our outstanding our Exchangeable Notes through open market purchases or privately negotiated transactions subject to prevailing market conditions and our available cash reserves. In December 2018 and February 2019, we repurchased a principal amount equal to $1.6 million and $0.9 million, respectively, of the Exchangeable Notes in the open market. As of September 30, 2020, our Exchangeable Notes were recorded as a current liability as their maturities were less than one year.

We currently believe that we will have sufficient cash reserves from cash on hand and expected cash from operations to fund our operations as well as capital expenditures for the next twelve months and the foreseeable future.

Working Capital

Our working capital balance as of September 30, 2020 was $244.9 million, compared to $245.5 million as of December 31, 2019. The increase in working capital was primarily attributable to increased cash and cash equivalents as a result of the completion of sale of our Foundry Services Group business and Fab 4, which was offset in part by reclassification of the outstanding Exchangeable Notes and 2021 Notes, which were reclassified as a current liability in the first and third quarter of 2020, respectively.

Cash Flows from Operating Activities

Cash inflow provided by operating activities totaled $51.5 million for the nine months ended September 30, 2020, compared to $30.0 million of cash inflow provided by operating activities for the nine months ended September 30, 2019. The net operating cash inflow for the nine months ended September 30, 2020 reflects our net loss of $8.7 million, excluding gain on sale of discontinued operations, as adjusted favorably by $45.3 million, which mainly consisted of net foreign currency loss, depreciation and amortization, provision for severance benefits, and net favorable impact of $15.0 million from changes of operating assets and liabilities.

Cash Flows from Investing Activities

Cash inflow provided by investing activities totaled $334.0 million for the nine months ended September 30, 2020, compared to $22.6 million of cash outflow used in investing activities for the nine months ended September 30, 2019. The $356.6 million increase in cash inflow was primarily attributable to $350.6 million of proceeds received from the sale of the Foundry Services Group business and Fab 4, a $4.6 million net decrease in hedge collateral and a $1.1 million net decrease in guarantee deposits.

Cash Flows from Financing Activities

Cash inflow provided by financing activities totaled $1.1 million for the nine months ended September 30, 2020, compared to $3.3 million of cash outflow used in financing activities for the nine months ended September 30, 2019. The financing cash inflow for the nine months ended September 30, 2020 was primarily attributable to $2.7 million of proceeds received from the issuance of common stock in connection with the exercise of stock options, which was offset in part by a payment of $1.0 million for the repurchase of our common stock to satisfy tax withholding obligation in connection with the vesting of restricted stock units. The financing cash outflow for the nine months ended September 30, 2019 was primarily attributable to a payment of $1.2 million for the repurchases of 2021 Notes and Exchangeable Notes in the first quarter of 2019 and a payment of $2.4 million for the repurchases of our common stock in January 2019 pursuant to our stock repurchase plan, which was offset in part by $1.0 million of proceeds received from the issuance of common stock in connection with the exercise of stock options.

For additional cash flow information associated with our discontinued operation, please see "Item 1. Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – Note 2 – Discontinued Operations and Assets Held for Sale" included elsewhere in this Report.

Capital Expenditures

We routinely make capital expenditures for fabrication facility maintenance, enhancement of our existing facilities and reinforcement of our global research and development capabilities. For the nine months ended September 30, 2020, capital expenditures for plant, property and equipment were $16.4 million, which remained flat, compared to $16.7 million of capital expenditures for the nine month ended September 30, 2019. The capital expenditures for the nine months ended September 30, 2020 and 2019 were related to meeting customer demand, supporting technology and facility improvement at our fabrication facilities.

Table of Contents

Contractual Obligations

The following summarizes our contractual obligations as of September 30, 2020:

	Payments Due by Period						
	Total	Remainder of 2020	2021	2022	2023	2024	Thereafter
	(In millions)						
Exchangeable Notes(1)	$ 85.8	$ —	$ 85.8	$—	$—	$—	$ —
Senior Notes(2)	227.4	227.4	—	—	—	—	—
Operating leases(3)	2.2	0.4	1.5	0.3	0.0	—	—
Finance leases(3)	0.2	0.0	0.1	0.1	0.1	—	—
Water Treatment Services(3)(4)	29.2	1.0	4.0	3.9	3.9	3.7	12.7
Others(5)	13.0	4.5	5.2	1.4	0.8	0.6	0.4

(1) Interest payments as well as $83.7 million aggregate principal amount of the Exchangeable Notes outstanding as of September 30, 2020, which bear interest at a rate of 5.0% per annum and are scheduled to mature in 2021 if not earlier exchanged at the price of approximately $8.26 per share of common stock.
(2) Interest payments as well as $224.3 million aggregate principal amount of the 2021 Notes outstanding as of September 30, 2020, which bore interest at a rate of 6.625% per annum and were scheduled to mature in 2021. The notice of redemption was issued in September and the redemption occurred in October after the September 30, 2020 reference date.
(3) Assumes constant currency exchange rate for Korean won to U.S. dollars of 1,173.5:1, the exchange rate as of September 30, 2020.
(4) Includes future payments for water treatment services for our fabrication facility in Gumi, Korea based on the contractual terms.
(5) Includes license agreements, funding obligations for the accrued severance benefits and other contractual obligations.

The indenture relating to the Exchangeable Notes contains covenants as detailed in “Item 1. Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Note 11. Borrowings” in this Report. Those covenants are subject to a number of exceptions and qualifications. Certain of those restrictive covenants will terminate if the Exchangeable Notes are rated investment grade at any time.

We lease office space and equipment under various operating lease agreements that expire through 2023.

We are a party to an arrangement for the water treatment facility in Gumi, Korea, which includes a 10-year service agreement.

Beginning in July 2018, we have contributed a certain percentage of severance benefits, accrued for eligible employees for their services beginning January 1, 2018, to certain severance insurance deposit accounts. These accounts consist of time deposits and other guaranteed principal and interest, and are maintained at insurance companies, banks or security companies for the benefit of employees. We deduct the contributions made to these severance insurance deposit accounts from our accrued severance benefits. As of September 30, 2020, our accrued severance benefits totaled $52.0 million and cumulative contributions to these severance insurance deposit accounts amounted to $1.6 million. Our related cash payments for future contributions are $3.4 million for the remaining period of 2020, to the extent that our obligations are contractual, fixed and reasonably estimable.

We follow U.S. GAAP guidance on uncertain tax positions. Our unrecognized tax benefits totaled $0.4 million as of September 30, 2020. These unrecognized tax benefits have been excluded from the above table because we cannot estimate the period of cash settlement with the respective taxing authorities.

Off-Balance Sheet Arrangements

As of September 30, 2020, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K.

Critical Accounting Policies and Estimates

Preparing financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements, the reported amounts of revenues and expenses during the reporting periods and the related disclosures in our consolidated financial statements and accompanying notes.

We believe that our significant accounting policies, which are described further in Note 1 to our consolidated financial statements in our Annual Report on Form 10-K for our fiscal year ended December 31, 2019, or our 2019 Form 10-K, are critical due to the fact that they involve a high degree of judgment and estimates about the effects of matters that are inherently uncertain. We base these estimates and judgments on historical experience, knowledge of current conditions and other assumptions and information that we believe to be reasonable. Estimates and assumptions about future events and their effects cannot be determined with certainty. Accordingly, these estimates may change as new events occur, as more experience is acquired, as additional information is obtained and as the business environment in which we operate changes.

A description of our critical accounting policies that involve significant management judgment appears in our 2019 Form 10-K, under "Management's Discussion and Analysis of Financial Conditions and Reports of Operations—Critical Accounting Policies and Estimates." There have been no material changes in the matters for which we make accounting estimates in the preparation of our consolidated financial statements for the nine months ended September 30, 2020, except for those related to discontinued operations as a result of changes in reporting that relate to the sale of the Foundry Services Group business and Fab 4.

Discontinued Operations. We review the presentation of the planned disposition of the Foundry Services Group business and Fab 4 based on the available information and events that have occurred. The review consists of evaluating whether the disposition meets the definition of a component for which the operations and cash flows are clearly distinguishable from the other components of the business, and if so, whether it is anticipated that after the disposal the cash flows of the component would be eliminated from continuing operations and whether the disposition represents a strategic shift that has a major effect on operations and financial results. In addition, we evaluate whether the Foundry Services Group business and Fab 4 have met the criteria as assets held for sale. In order for a planned disposition to be classified as assets held for sale, the established criteria must be met as of the reporting date, including an active program to market the sale and the expected disposition of within one year. The assets classified as held for sale are recorded at the lower of carrying amounts or estimated fair value less costs to sell and depreciation and amortization ceases on the that the held for sale criteria are met.

The Foundry Services Group business and Fab 4 is presented as discontinued operations beginning in the first quarter 2020 since all the criteria described above are met. For a divestiture that qualifies as a discontinued operation, all comparative periods presented are reclassified in the consolidated balance sheet. Additionally, the results of operations of a discontinued operation are reclassified to income or loss from discontinued operations, net of tax, for all periods presented. See "Item 1. Financial Statements and Supplementary Data – Notes to Consolidated Financial Statements – Note 2—Discontinued Operations and Assets Held for Sale" for additional information.

Recent Accounting Pronouncements

For a full description of new accounting pronouncements and recently adopted accounting pronouncements, please see "Item 1. Interim Consolidated Financial Statements—Notes to Consolidated Financial Statements—Note 1. Business, Basis of Presentation and Significant Accounting Policies" in this Report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to the market risk that the value of a financial instrument will fluctuate due to changes in market conditions, primarily from changes in foreign currency exchange rates and interest rates. In the normal course of our business, we are subject to market risks associated with interest rate movements and currency movements on our assets and liabilities.

Foreign Currency Exposures

We have exposure to foreign currency exchange rate fluctuations on net income from our subsidiaries denominated in currencies other than U.S. dollars, as our foreign subsidiaries in Korea, Taiwan, China, Japan and Hong Kong use local currency as their functional currency. From time to time these subsidiaries have cash and financial instruments in local currency. The amounts held in Japan, Taiwan, Hong Kong and China are not material in regards to foreign currency movements. However, based on the cash and financial instruments balance at September 30, 2020 for our Korean subsidiary, a 10% devaluation of the Korean won against the U.S. dollar would have resulted in a decrease of $8.5 million in our U.S. dollar financial instruments and cash balances.

See “Note 9. Derivative Financial Instruments” to our consolidated financial statements under “Item 1. Interim Consolidated Financial Statements” and “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Factors Affecting Our Results of Operations—Impact of Foreign Currency Exchange Rates on Reported Results of Operations” for additional information regarding our foreign exchange hedging activities.

Interest Rate Exposures

As of September 30, 2020, $83.74 million aggregate principal amount of our Exchangeable Notes were outstanding. Interest on the Exchangeable Notes accrues at a fixed rate of 5.0% per annum and is paid semi-annually every March 1 and September 1 of each year until the Exchangeable Notes mature on March 1, 2021. As of September 30, 2020, $224.25 million aggregate principal amount of our 2021 Notes were also outstanding; however, we redeemed all outstanding 2021 Notes on October 2, 2020. Interest on the 2021 Notes accrued at a fixed rate of 6.625% per annum and was paid semi-annually every January 15 and July 15 of each year. Since the interest rates are and were fixed, we have no market interest rate risk related to the Exchangeable Notes and the 2021 Notes.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our periodic reports filed or submitted under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

In connection with the preparation of this Report, we carried out an evaluation under the supervision of and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, as of September 30, 2020, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2020.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended September 30, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

For a discussion of legal proceedings, see “Part I: Item 3. Legal Proceedings” of our 2019 Form 10-K.

See also “Part I: Item 1A. Risk Factors” and Note 18 of our 2019 Form 10-K for additional information.

Item 1A. Risk Factors

The Company is subject to risks and uncertainties, any of which could have a significant or material adverse effect on our business, financial condition, liquidity or consolidated financial statements. You should carefully consider the risk factors disclosed in Part I, Item 1A of our 2019 Form 10-K (including that the impact of the COVID-19 pandemic may also exacerbate the risks discussed therein), herein and other reports we have filed with the SEC. The risks described herein and therein are not the only ones we face. This information should be considered carefully together with the other information contained in this Report and the other reports and materials the Company files with the SEC.

Risks Related to COVID-19

Our business, results of operations and financial condition and prospects may be materially and adversely affected by the recent COVID-19 pandemic.

COVID-19, a virus causing potentially deadly respiratory tract infections, which has spread rapidly and enveloped most of the world, is a global public health crisis. On March 11, 2020, the World Health Organization characterized the COVID-19 outbreak as a pandemic. Governments in affected countries are imposing travel bans, quarantines and other emergency public health measures. In response to the virus, national and local governments in numerous countries around the world have implemented substantial lockdown measures, and other countries and local governments may enact similar policies. Private sector companies are also taking precautionary measures, such as requiring employees to work remotely, imposing travel restrictions and temporarily closing businesses and facilities. These restrictions, and future prevention and mitigation measures, are likely to have an adverse impact on global economic conditions, which could materially adversely affect our future operations. Uncertainties regarding the economic impact of the COVID-19 outbreak are likely to result in sustained market turmoil, which could also negatively impact our business, financial condition and cash flows.

These measures have impacted and may further impact our workforce and operations, the operations of our customers, and those of our respective vendors, suppliers, and partners. The disruptions to our operations caused by the COVID-19 outbreak may result in inefficiencies, delays and additional costs in our research and development, sales and marketing, and customer service efforts that we cannot fully mitigate through remote or other alternative work arrangements. Also, some suppliers of materials used in the production of our products may be located in areas that have been or will be more severely impacted by COVID-19, which could limit our ability to obtain sufficient materials for our products. In addition, the severe global economic disruption caused by COVID-19 may cause our customers and end-users of our products to suffer significant economic hardship, which could result in decreased demand for our products in the future and materially adversely affect our business, results of operations, financial condition (including liquidity) and prospects.

The impact of the COVID-19 pandemic continues to evolve and its duration and ultimate disruption on our customers, end-users, overall demand for our products, supply chain, and the related financial impact to us, cannot be estimated at this time. Should such disruption continue for an extended period of time, the impact could have a more severe adverse effect on our business, results of operations and financial condition (including liquidity). Additionally, weaker economic conditions generally could result in impairment in value of our tangible or intangible assets, or our ability to raise additional capital, if needed.

Risks Related to Independent Subcontractors

We rely on a number of independent subcontractors and the failure of any of these independent subcontractors to perform as required could adversely affect our operating results.

A substantial portion of our net sales are derived from semiconductor devices assembled in packages or on film. The packaging and testing of semiconductors require technical skills and specialized equipment. For the portion of packaging and testing that we outsource, we use subcontractors located in Korea, China, Taiwan and Thailand. We rely on these subcontractors to package and test our devices with acceptable quality and yield levels, and, while we specify quality standards, we are not able to directly oversee their day-to-day operations and the packaging and testing of our devices. Onboarding of a new subcontractor, including as a result of switching from one subcontractor to another, takes approximately three to six months to verify the subcontractor's capabilities and an additional six to twelve months to receive approval from our customers to use such subcontractor. We could be adversely affected by political disorders, labor disruptions, public health issues (including viral outbreaks such as the COVID-19 coronavirus) and natural disasters where our subcontractors are located due to the time it would take to onboard a new subcontractor. If our semiconductor packagers and test service subcontractors experience problems in packaging and testing our semiconductor devices, experience prolonged quality or yield problems, experience shutdowns or delays associated with public health issues (such as those associated with the COVID-19 coronavirus), or decrease the capacity of their operations available to us, our operating results could be adversely affected.

Risks Related to Our International Operations and Trade

Recent changes in international trade policy and the imposition and threats of international tariffs, including tariffs applied to goods traded between the United States and China, could materially and adversely affect our business and results of operations.

Since the beginning of 2018, there have been increasing public threats and, in some cases, legislative or executive action, from U.S. and foreign leaders regarding instituting tariffs against foreign imports of certain materials. More specifically, since March of 2018, the U.S. and China have applied tariffs to certain of each other's exports. The institution of trade tariffs globally, and between the U.S. and China specifically, may negatively impact the affected countries' economic conditions, which could negatively affect demand for our products in those countries and materially and adversely affect our business and results of operations of our customers serving the affected markets. Furthermore, imposition of tariffs could increase costs of the end-user products we supply that we may not be able to pass on to our customers, which could in turn cause a decrease in the sales of our products and services and materially and adversely affect our business and results of operations.

Expanded trade restrictions imposed by the United States may limit our ability to sell to certain customers.

On August 17, 2020, the U.S. Department of Commerce expanded the scope of export restrictions as applied to products directed to Huawei and its affiliates listed on the Bureau of Industry and Security's Entity List (collectively, "Huawei"). While prior restrictions had minimal effect on our ability to supply to customers, the newly expanded restriction would limit our ability to supply to a variety of customers who we believe incorporate our products to those customers' products directly or indirectly sold to Huawei. As of the date of this Quarterly Report, we are uncertain on the seriousness of the restriction's impact or duration, nor are we certain about the future trajectory of our business from customers who directly or indirectly supply Huawei with products that incorporate our products. If required by the new restrictions, we will consider applying for export license in order to continue to sell to the affected customers, but at this moment we are unsure whether our application, if we were to apply, will be successful. There is also a possibility that the export restrictions may be further expanded to target other companies besides Huawei, which may have additional impact on our ability to sell to our customers. The export restriction may also affect our contractors, suppliers or customers, and we cannot assure that they will not violate the restriction. Their violations of the restriction may result in fines or criminal sanctions against us, and it may also damage our reputation.

Table of Contents

Item 6. Exhibits.

Exhibit Number	Description
31.1#	Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 of the Chief Executive Officer.
31.2#	Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 of the Principal Financial Officer.
32.1†	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Executive Officer.
32.2†	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of the Chief Financial Officer.
101.INS#	XBRL Instance Document.
101.SCH#	XBRL Taxonomy Extension Schema Document.
101.CAL#	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF#	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB#	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE#	XBRL Taxonomy Extension Presentation Linkbase Document.
104	The cover page from this Quarterly Report on Form 10-Q, formatted in Inline XBRL.

Footnotes:

Filed herewith
† Furnished herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	MAGNACHIP SEMICONDUCTOR CORPORATION (Registrant)
Dated: November 6, 2020	By: /s/ Young-Joon Kim Young-Joon Kim Chief Executive Officer (Principal Executive Officer)
Dated: November 6, 2020	By: /s/ Young Soo Woo Young Soo Woo Chief Financial Officer (Principal Financial Officer)

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO
SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002

I, Young-Joon Kim, certify that:

1. I have reviewed this quarterly report on Form 10-Q of MagnaChip Semiconductor Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 6, 2020

/s/ Young-Joon Kim

Young-Joon Kim
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO
SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002

I, Young Soo Woo, certify that:

1. I have reviewed this quarterly report on Form 10-Q of MagnaChip Semiconductor Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 6, 2020

/s/ Young Soo Woo

Young Soo Woo
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of MagnaChip Semiconductor Corporation (the "**Company**") hereby certifies, to such officer's knowledge, that:

(i) the Quarterly Report on Form 10-Q of the Company for the quarterly period ended September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "**Report**") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

Dated: November 6, 2020

/s/ Young-Joon Kim
Young-Joon Kim
Chief Executive Officer
(Principal Executive Officer)

The foregoing certification is being furnished solely pursuant to 18 U.S.C § 1350 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or incorporated by reference in any registration statement of the Company filed under the Securities Act of 1933, as amended.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of MagnaChip Semiconductor Corporation (the "**Company**") hereby certifies, to such officer's knowledge, that:

(i) the Quarterly Report on Form 10-Q of the Company for the quarterly period ended September 30, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "**Report**") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

Dated: November 6, 2020

/s/ Young Soo Woo
Young Soo Woo
Chief Financial Officer
(Principal Financial Officer)

The foregoing certification is being furnished solely pursuant to 18 U.S.C § 1350 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or incorporated by reference in any registration statement of the Company filed under the Securities Act of 1933, as amended.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.