

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, DC 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of report (Date of earliest event reported): September 1, 2020

MagnaChip Semiconductor Corporation

(Exact name of Registrant as specified in its charter)

Delaware
(State or Other Jurisdiction
of Incorporation)

001-34791
(Commission
File Number)

83-0406195
(IRS Employer
Identification No.)

c/o MagnaChip Semiconductor S.A.
1, Allée Scheffer, L-2520
Luxembourg, Grand Duchy of Luxembourg
(Address of Principal Executive Offices)

Not Applicable
(Zip Code)

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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 is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§ 230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§ 240.12b-2 of this chapter).

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.

Item 2.01. Completion of Acquisition or Disposition of Assets

On September 1, 2020 (the “Closing Date”), MagnaChip Semiconductor S.A., a Luxembourg société anonyme (“LuxCo”), and MagnaChip Semiconductor, Ltd., a Korean limited liability company (“MSK”), wholly owned subsidiaries of MagnaChip Semiconductor Corporation (the “Company”), completed the previously announced sale of the Company’s Foundry Services Group and the factory in Cheongju (“Fab 4”) to Key Foundry Co., Ltd. (the “Buyer”) 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 (the “Business Transfer Agreement”) dated March 31, 2020 by and among LuxCo, MSK and Magnus Semiconductor, LLC, a Korean limited liability company (“Magnus”). 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 have 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.

The Business Transfer Agreement and the transactions contemplated thereby, including the sale of the Business, are more fully described in the Company’s Current Report on Form 8-K filed with the U.S. Securities and Exchange Commission (the “SEC”) on March 31, 2020, which description is incorporated herein by reference. Such description and the foregoing description do not purport to be complete and are subject to, and qualified in their entirety by, the full text of the Business Transfer Agreement, which is filed as Exhibit 2.1 hereto and is incorporated herein by reference.

Item 7.01. Regulation FD Disclosure

On September 1, 2020, the Company issued a press release announcing the closing of the sale of the Business, as discussed in Item 2.01 above, the text of which is furnished as Exhibit 99.1 hereto and incorporated herein by reference.

The information furnished pursuant to this Item 7.01, including the attached press release, shall not be deemed “filed” for purposes of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liabilities of such section, nor shall such information or exhibits be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such a filing by the Company with the SEC.

Item 8.01. Other Events

On September 2, 2020, the Company issued a notice of full redemption to the holders of its 6.625% Senior Notes due 2021 (the “2021 Notes”) for the redemption in full of all of its outstanding \$224.25 million aggregate principal amount of the 2021 Notes on October 2, 2020 (the “Redemption Date”) at a redemption price equal to the sum of 100% of the principal amount thereof, plus accrued and unpaid interest thereon to, but excluding, the Redemption Date.

Item 9.01. Financial Statements and Exhibits

(b) Pro forma financial information

The pro forma financial information of the Company as adjusted to give effect to the sale of the Business is presented in the unaudited pro forma consolidated financial statements filed as Exhibit 99.2 to this Current Report on Form 8-K and incorporated herein by reference.

(d) Exhibits

The following exhibit is furnished as part of this report:

<u>Exhibit No.</u>	<u>Description</u>
2.1	Business Transfer Agreement, dated as of March 31, 2020, by and among Magnus Semiconductor, LLC, MagnaChip Semiconductor S.A. and MagnaChip Semiconductor, Ltd. (incorporated by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K filed with the Securities and Exchange Commission on March 31, 2020). *
99.1	Press Release, dated September 1, 2020
99.2	Unaudited Pro Forma Consolidated Financial Statements
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

* The schedules and exhibits to the agreement have been omitted pursuant to Item 601(a)(5) of Regulation S-K. A copy of any omitted schedule or exhibit will be furnished to the SEC upon request.

SIGNATURE

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 hereunto duly authorized.

MAGNACHIP SEMICONDUCTOR CORPORATION

Dated: September 8, 2020

By: /s/ Theodore Kim
Theodore Kim
Chief Compliance Officer, Executive Vice President, General
Counsel and Secretary



MagnaChip Completes Sale of Foundry Services Group and Fab 4

- **Purchase Price of Approximately \$350.6 Million in Cash**
- **Use Part of Proceeds to Reduce Debt**

SEOUL, South Korea, September 1, 2020 — MagnaChip Semiconductor Corporation (“MagnaChip” or the “Company”) (NYSE: MX) today announced that certain of its wholly owned subsidiaries have completed the previously announced sale of the Company’s Foundry Services Group and the factory in Cheongju (“Fab 4”) to Key Foundry Co., Ltd. (“Buyer”), for a purchase price equal to approximately \$350.6 million, which includes a positive working capital adjustment of approximately \$5.9 million. 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, Buyer assumed all severance liabilities relating to the transferred employees, which have a value of approximately \$100 million. Buyer is a wholly owned subsidiary of Magnus Semiconductor, LLC (“Magnus”), which was established by Alchemist Capital Partners Korea Co., Ltd. and Credian Partners, Inc. On April 20, 2020, Magnus assigned, and Buyer assumed, all rights and obligations of Magnus under the business transfer agreement relating to this transaction.

The Company intends to use approximately \$227.4 million of the net proceeds to fully redeem all of its outstanding 6.625% Senior Notes due 2021, of which \$224.25 million principal amount was outstanding as of August 31, 2020.

MagnaChip’s Chief Executive Officer, YJ Kim, said: “This represents a pivotal chapter for MagnaChip as we are transforming into a streamlined, pure-play standard products company focused on the attractive growth opportunities in our Display and Power businesses. We will use a portion of the net proceeds from the sale to de-lever by paying off \$224.25 million of our outstanding debt, eliminating a substantial portion of our annual interest expense. With sharpened focus and an improved balance sheet, we are committed to strive for sustainable and profitable growth.”

“The Board of Directors is pleased with the successful close of the transaction,” said Camillo Martino, Chairman of the Board of MagnaChip. “The company is positioning for continued future success, enhancing our shareholders’ value.”

The Company will host an Analyst day on Thursday, November 12, 2020 at 9:00 AM Eastern Time.

Safe Harbor for Forward-Looking Statements

Information in this release regarding MagnaChip's use of proceeds from the sale of its Foundry Services Group and Fab 4, future operations and shareholders' value are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties. All forward-looking statements included in this release are based upon information available to MagnaChip as of the date of this release, which may change, and we assume no obligation to update any such forward-looking statements. These statements are not guarantees of future performance and actual results could differ materially from our current expectations. Factors that could cause or contribute to such differences include the impact of changes in macroeconomic and/or general economic conditions, including those caused by or related to the COVID-19 outbreak, recessions, economic instability and the outbreak of disease; the impact of competitive products and pricing; timely design acceptance by our customers; timely introduction of new products and technologies; ability to ramp new products into volume production; industry wide shifts in supply and demand for semiconductor products; industry and/or company overcapacity; effective and cost efficient utilization of manufacturing capacity; financial stability in foreign markets and the impact of foreign exchange rates; unanticipated costs and expenses or the inability to identify expenses which can be eliminated; compliance with U.S. and international trade and export laws and regulations by us and our distributors; the risk that the redemptions of our Notes are not consummated according to our current expectations or at all; public health issues, including the COVID-19 pandemic; other business interruptions that could disrupt supply or delivery of, or demand for, MagnaChip's products, including uncertainties regarding the impacts of the COVID-19 pandemic that may result in factory closures, reduced workforces, scarcity of raw materials and goods produced in infected areas, as well as reduced consumer and business spending affecting demand for MagnaChip's products due to government and private sector mandatory business closures, travel restrictions or the like to prevent the spread of disease; and other risks detailed from time to time in MagnaChip's filings with the SEC, including our Form 10-K filed on February 21, 2020 (including that the impact of the COVID-19 pandemic may also exacerbate the risks discussed therein), our Form 10-Q filed on May 11, 2020, our Form 10-Q filed on August 7, 2020 and subsequent registration statements, amendments or other reports that we may file from time to time with the Securities and Exchange Commission and/or make available on our website. MagnaChip assumes no obligation and does not intend to update the forward-looking statements provided, whether as a result of new information, future events or otherwise.

About MagnaChip Semiconductor

MagnaChip is a designer and manufacturer of analog and mixed-signal semiconductor platform solutions for communications, IoT, consumer, industrial and automotive applications. The Company provides a broad range of standard products to customers worldwide. With more than 40 years of operating history, MagnaChip owns a portfolio of approximately 1,200 registered patents and pending applications, and has extensive engineering, design and manufacturing process expertise. Please visit www.magnachip.com for more information. Information on or accessible from MagnaChip's website is not a part of, and is not incorporated into, this release.

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MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

Sale of Foundry Services Group and Fab 4

On September 1, 2020 (the “Closing Date”), MagnaChip Semiconductor S.A., a Luxembourg société anonyme (“LuxCo”), and MagnaChip Semiconductor, Ltd., a Korean limited liability company (“MSK”), wholly owned subsidiaries of MagnaChip Semiconductor Corporation (the “Company”), completed the previously announced sale of the Company’s Foundry Services Group business and the fabrication facility located in Cheongju known as “Fab 4” (the “Business”) 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 LuxCo, MSK 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 have 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.

The Company intends to use approximately \$227.4 million of the net proceeds to fully redeem all of its outstanding 6.625% Senior Notes due 2021 (the “2021 Notes”), of which \$224.25 million principal amount was outstanding as of August 31, 2020.

Unaudited Pro Forma Consolidated Financial Information

The Disposition constitutes a significant disposition for purposes of Item 2.01 of Form 8-K. As a result, the following unaudited pro forma consolidated statement of operations for the six months ended June 30, 2020 and unaudited pro forma consolidated statements of operations for the year ended December 31, 2019 are presented as if the Disposition and use of proceeds therefrom had occurred immediately prior to January 1, 2019. The unaudited pro forma consolidated statements of operations for the years ended December 31, 2018 and 2017 are presented as if the Disposition had occurred immediately prior to January 1, 2017. The following unaudited pro forma consolidated balance sheet as of June 30, 2020 is presented as if the Disposition and use of proceeds therefrom had occurred on June 30, 2020. The Disposition represents a strategic shift that will have a major effect on the Company’s operations and financial results. Accordingly, the Company accounted for the Business as discontinued operations beginning in its Quarterly Report on Form 10-Q from the quarter ended March 31, 2020.

The unaudited pro forma consolidated financial statements have been derived from historical financial statements prepared in accordance with U.S. generally accepted accounting principles (“US GAAP”) and are presented based on assumptions, adjustments, and currently available information described in the accompanying notes. They are intended for informational purposes only and are not intended to represent the Company’s financial position or results of operations had the Disposition occurred on the dates indicated, or to project the Company’s financial performance for any future period. Pro forma adjustments have been made for events that are directly attributable to the Disposition, factually supportable and, with respect to the unaudited pro forma consolidated statements of operations, expected to have a continuing impact on the Company’s consolidated operating results.

The unaudited pro forma consolidated financial statements have been prepared in accordance with Article 11 of Regulation S-X and should be read in conjunction with the following: (i) the accompanying notes to the unaudited pro forma consolidated financial statements; (ii) the Company’s audited consolidated financial statements for the years ended December 31, 2019, 2018 and 2017 and related notes thereto, and Management’s Discussion and Analysis of Financial Condition and Results of Operations included in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission (the “SEC”) on February 21, 2020; and (iii) the Company’s unaudited condensed consolidated financial statements as of and for the six month period ended June 30, 2020 and related notes thereto, and Management’s Discussion and Analysis of Financial Condition and Results of Operations included in the Company’s Quarterly Report on Form 10-Q filed with the SEC on August 7, 2020.

MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET

As of June 30, 2020

(In thousands of US dollars, except share data)

	As Reported	Pro Forma Adjustments	Notes	Pro Forma
Assets				
Current assets				
Cash and cash equivalents	\$ 192,824	\$ 109,902	(a)	\$ 302,726
Accounts receivable, net	48,548	—		48,548
Inventories, net	45,511	—		45,511
Other receivables	10,406	—		10,406
Prepaid expenses	8,598	—		8,598
Hedge collateral	11,740	—		11,740
Other current assets	7,405	—		7,405
Current assets held for sale	205,086	(205,086)	(b)	—
Total current assets	<u>530,118</u>	<u>(95,184)</u>		<u>434,934</u>
Property, plant and equipment, net	69,110	—		69,110
Operating lease right-of-use assets	1,182	—		1,182
Intangible assets, net	2,590	—		2,590
Long-term prepaid expenses	2,936	—		2,936
Other non-current assets	9,212	—		9,212
Total assets	<u>\$ 615,148</u>	<u>\$ (95,184)</u>		<u>\$ 519,964</u>
Liabilities and Stockholders' Equity				
Current liabilities				
Accounts payable	\$ 42,366	\$ —		\$ 42,366
Other accounts payable	4,049	—		4,049
Accrued expenses	45,735	(6,809)	(a)	38,926
Operating lease liabilities	1,053	—		1,053
Current portion of long-term borrowings, net	82,706	—		82,706
Other current liabilities	5,481	—		5,481
Current liabilities held for sale	146,569	(146,569)	(b)	—
Total current liabilities	<u>327,959</u>	<u>(153,378)</u>		<u>174,581</u>
Long-term borrowings, net	223,242	(223,242)	(a)	—
Accrued severance benefits, net	49,927	—		49,927
Other non-current liabilities	7,845	—		7,845
Total liabilities	<u>608,973</u>	<u>(376,620)</u>		<u>232,353</u>
Commitments and contingencies				
Stockholders' equity				
Common stock, \$0.01 par value, 150,000,000 shares authorized, 44,248,706 shares issued and 35,143,033 outstanding at June 30, 2020	443	—		443
Additional paid-in capital	155,591	—		155,591
Retained earnings (deficit)	(52,709)	281,436	(c)	228,727
Treasury stock, 9,105,673 shares at June 30, 2020	(107,649)	—		(107,649)
Accumulated other comprehensive income	10,499	—		10,499
Total stockholders' equity	<u>6,175</u>	<u>281,436</u>		<u>287,611</u>
Total liabilities and stockholders' equity	<u>\$ 615,148</u>	<u>\$ (95,184)</u>		<u>\$ 519,964</u>

MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS

For the Six Months Ended June 30, 2020
(In thousands of US dollars, except share data)

	As Reported	Pro Forma Adjustments	Notes	Pro Forma
Revenues				
Net sales – standard products business	\$ 219,691	\$ —		\$ 219,691
Net sales – transitional Fab 3 foundry services	19,610	(19,610)	(d)	—
Total revenues	239,301	(19,610)		219,691
Cost of sales				
Cost of sales – standard products business	158,423	—		158,423
Cost of sales – transitional Fab 3 foundry services	19,610	(19,610)	(d)	—
Total cost of sales	178,033	(19,610)		158,423
Gross profit	61,268	—		61,268
Operating expenses				
Selling, general and administrative expenses	24,510	—		24,510
Research and development expenses	21,617	—		21,617
Other charges	554	—		554
Total operating expenses	46,681	—		46,681
Operating income	14,587	—		14,587
Interest expense	(11,037)	7,887	(e)	(3,150)
Foreign currency loss, net	(22,502)	8,190	(f)	(14,312)
Other income, net	1,629	—		1,629
Income (loss) from continuing operations before income tax expense	(17,323)	16,077		(1,246)
Income tax expense	1,981	—	(g)	1,981
Loss from continuing operations	(19,304)	16,077		(3,227)
Income from discontinued operations, net of tax	24,726	(24,726)	(h)	—
Net income (loss)	<u>\$ 5,422</u>	<u>\$ (8,649)</u>		<u>\$ (3,227)</u>
Basic earnings (loss) per common share—				
Continuing operations	\$ (0.55)			\$ (0.09)
Discontinued operations	0.71			—
Total	<u>\$ 0.16</u>			<u>\$ (0.09)</u>
Diluted earnings (loss) per common share—				
Continuing operations	\$ (0.55)			\$ (0.09)
Discontinued operations	0.71			—
Total	<u>\$ 0.16</u>			<u>\$ (0.09)</u>
Weighted average number of shares—				
Basic	34,992,734			34,992,734
Diluted	34,992,734			34,992,734

MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS

For the Year Ended December 31, 2019
(In thousands of US dollars, except share data)

	<u>As Reported</u>	<u>Pro Forma Adjustments</u>	<u>Notes</u>	<u>Pro Forma</u>
Net sales	\$ 792,195	\$ (307,348)	(i)	\$ 484,847
Cost of sales	611,584	(243,134)	(i)	368,450
Gross profit	180,611	(64,214)		116,397
Operating expenses				
Selling, general and administrative expenses	71,637	(24,042)	(i)	47,595
Research and development expenses	75,356	(30,332)	(i)	45,024
Restructuring and other charges	9,195	(9,142)	(i)	53
Total operating expenses	<u>156,188</u>	<u>(63,516)</u>		<u>92,672</u>
Operating income	24,423	(698)		23,725
Interest expense	(22,627)	16,200	(e) (i)	(6,427)
Foreign currency loss, net	(21,813)	6,966	(f) (i)	(14,847)
Loss on early extinguishment of long-term borrowings, net	(42)	(21)	(j)	(63)
Other income, net	2,980	(403)	(i)	2,577
Income (loss) before income tax expense	(17,079)	22,044		4,965
Income tax expense	4,747	(573)	(g) (i)	4,174
Net income (loss) from continuing operations	<u>\$ (21,826)</u>	<u>\$ 22,617</u>		<u>\$ 791</u>
Earnings (loss) per common share—				
Basic	\$ (0.64)			\$ 0.02
Diluted	\$ (0.64)			\$ 0.02
Weighted average number of shares—				
Basic	34,321,888			34,321,888
Diluted	34,321,888			35,405,077

MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS

For the Year Ended December 31, 2018
(In thousands of US dollars, except share data)

	<u>As Reported</u>	<u>Pro Forma Adjustments</u>	<u>Notes</u>	<u>Pro Forma</u>
Net sales	\$ 750,898	\$ (325,408)	(i)	\$ 425,490
Cost of sales	552,802	(242,960)	(i)	309,842
Gross profit	198,096	(82,448)		115,648
Operating expenses				
Selling, general and administrative expenses	72,639	(24,713)	(i)	47,926
Research and development expenses	78,039	(31,863)	(i)	46,176
Total operating expenses	150,678	(56,576)		94,102
Operating income	47,418	(25,872)		21,546
Interest expense	(22,282)	276	(i)	(22,006)
Foreign currency loss, net	(24,445)	(1,862)	(i)	(26,307)
Loss on early extinguishment of long-term borrowings, net	(206)	—		(206)
Other income (expense), net	264	(493)	(i)	(229)
Income (loss) before income tax expense	749	(27,951)		(27,202)
Income tax expense	4,649	(1,222)	(i)	3,427
Net loss from continuing operations	<u>\$ (3,900)</u>	<u>\$ (26,729)</u>		<u>\$ (30,629)</u>
Loss per common share—				
Basic	\$ (0.11)			\$ (0.89)
Diluted	\$ (0.11)			\$ (0.89)
Weighted average number of shares—				
Basic	34,469,921			34,469,921
Diluted	34,469,921			34,469,921

MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS

For the Year Ended December 31, 2017
(In thousands of US dollars, except share data)

	<u>As Reported</u>	<u>Pro Forma Adjustments</u>	<u>Notes</u>	<u>Pro Forma</u>
Net sales	\$ 679,672	\$ (350,572)	(i)	\$ 329,100
Cost of sales	491,779	(248,616)	(i)	243,163
Gross profit	187,893	(101,956)		85,937
Operating expenses				
Selling, general and administrative expenses	81,775	(25,786)	(i)	55,989
Research and development expenses	70,523	(28,830)	(i)	41,693
Restructuring and other gain	(17,010)	—		(17,010)
Early termination charges	13,369	(7,103)	(i)	6,266
Total operating expenses	<u>148,657</u>	<u>(61,719)</u>		<u>86,938</u>
Operating income (loss)	39,236	(40,237)		(1,001)
Interest expense	(21,559)	202	(i)	(21,357)
Foreign currency gain, net	65,516	4,731	(i)	70,247
Other income, net	2,898	(1,257)	(i)	1,641
Income before income tax expense	86,091	(36,561)		49,530
Income tax expense	1,155	735	(i)	1,890
Net income from continuing operations	<u>\$ 84,936</u>	<u>\$ (37,296)</u>		<u>\$ 47,640</u>
Earnings per common share—				
Basic	\$ 2.50			\$ 1.40
Diluted	\$ 2.02			\$ 1.18
Weighted average number of shares—				
Basic	33,943,264			33,943,264
Diluted	44,755,137			44,755,137

MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

The following adjustments have been reflected in the unaudited pro forma consolidated financial statements:

- (a) Adjustment reflects estimated net cash proceeds of \$340.0 million, representing the gross sales price of \$350.6 million less estimated transaction expenses of \$10.6 million outstanding at the closing of the Disposition and reflects the pro forma assumption that the Company fully redeems the \$224.3 million aggregate outstanding principal amount of the 2021 Notes, plus accrued and unpaid interest on the 2021 Notes of \$6.8 million as of June 30, 2020, using proceeds from the Disposition. The 2021 Notes are carried on the Company's books at June 30, 2020 at \$223.2 million, which is net of \$1.0 million of unamortized discount and debt issuance costs.
- (b) Adjustment reflects the elimination of assets and liabilities related to the Business that were previously classified as held for sale and corresponding equity balances.
- (c) Adjustment reflects the estimated gain of approximately \$281.4 million arising from the Disposition. This estimated gain has not been reflected in the pro forma consolidated statement of operations as it is considered to be nonrecurring in nature. The actual net gain on the Disposition will be recorded in the Company's financial statements for the third quarter of 2020 and may differ from the current estimate.
- (d) Adjustment reflects the elimination of transitional foundry services that the Company will provide to the Buyer for Foundry products manufactured in its fabrication facility located in Gumi ("Transitional Fab 3 Foundry Services") for a period of up to three years following the consummation of the Disposition. The Transitional Fab 3 Foundry Services are not expected to have a continuing impact on the Company's operations due to the Company's obligation to provide them for a limited period of time.
- (e) Adjustment reflects the reduction of actual interest expense, and amortized discount and debt issuance costs in connection with the 2021 Notes as a result of the pro forma assumption that the Company will use a portion of proceeds from the Disposition to fully redeem the 2021 Notes. For the year ended December 31, 2019, this reduction was \$15.7 million.
- (f) Adjustment reflects the elimination of net foreign currency translation gain or loss associated with a portion of the intercompany long-term loans, including accrued interest, to the Company's Korean subsidiary by its Dutch subsidiary that are assumed to have been repaid using proceeds from the Disposition, with the Dutch subsidiary using the consideration from such repayments to fully redeem the 2021 Notes. For the year ended December 31, 2019, this reduction was \$7.8 million.
- (g) Due to the Company's history of net operating losses, the pro forma adjustments relating to the Company's redemption of the 2021 Notes are not expected to have a material effect on the income tax expense and, therefore, such effect has not been reflected in the pro forma consolidated statement of operations.
- (h) Adjustment reflects the elimination of income from discontinued operations, net of tax, which represents the operating results of the Business.
- (i) Adjustment reflects the elimination of net sales, cost of sales, operating expenses, other income (expense), net and income tax expense which are specific to the operations of the Business.
- (j) Adjustment reflects the elimination of a net gain on early extinguishment of the 2021 Notes as a result of the pro forma assumption that the Company will use a portion of proceeds from the Disposition to fully redeem the 2021 Notes.