

**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 March 31, 2022

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
Preferred Stock Purchase Rights		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 April 30, 2022, the registrant had 44,894,385 shares of common stock outstanding.

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PART I—FINANCIAL INFORMATION
Item 1. Interim Consolidated Financial Statements (Unaudited)
**MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (Unaudited)**

	March 31, 2022	December 31, 2021
	(In thousands of U.S. dollars, except share data)	
Assets		
Current assets		
Cash and cash equivalents	\$ 284,921	\$ 279,547
Accounts receivable, net	51,208	50,954
Inventories, net	36,947	39,370
Other receivables (Notes 16 and 18)	26,121	25,895
Prepaid expenses	9,124	7,675
Hedge collateral (Note 7)	4,060	3,060
Other current assets (Note 17)	9,262	2,619
Total current assets	421,643	409,120
Property, plant and equipment, net	102,675	107,882
Operating lease right-of-use assets	3,719	4,275
Intangible assets, net	2,203	2,377
Long-term prepaid expenses	6,771	8,243
Deferred income taxes	40,246	41,095
Other non-current assets	10,608	10,662
Total assets	<u>\$ 587,865</u>	<u>\$ 583,654</u>
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 37,566	\$ 37,593
Other accounts payable	7,707	6,289
Accrued expenses (Note 6)	20,573	20,071
Accrued income taxes	9,361	11,823
Operating lease liabilities	2,223	2,323
Other current liabilities	6,989	7,382
Total current liabilities	84,419	85,481
Accrued severance benefits, net	32,572	33,064
Non-current operating lease liabilities	1,496	1,952
Other non-current liabilities	8,216	10,395
Total liabilities	126,703	130,892
Commitments and contingencies (Note 17)		
Stockholders' equity		
Common stock, \$0.01 par value, 150,000,000 shares authorized, 56,225,441 shares issued and 44,894,385 outstanding at March 31, 2022 and 55,905,320 shares issued and 45,659,304 outstanding at December 31, 2021	562	559
Additional paid-in capital	261,830	241,197
Retained earnings	353,070	343,542
Treasury stock, 11,331,056 shares at March 31, 2022 and 10,246,016 shares at December 31, 2021, respectively	(148,523)	(130,306)
Accumulated other comprehensive loss	(5,777)	(2,230)
Total stockholders' equity	461,162	452,762
Total liabilities and stockholders' equity	<u>\$ 587,865</u>	<u>\$ 583,654</u>

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	
	March 31, 2022	March 31, 2021
	(In thousands of U.S. dollars, except share data)	
Revenues:		
Net sales – standard products business	\$ 94,010	\$ 112,906
Net sales – transitional Fab 3 foundry services	10,083	10,113
Total revenues	104,093	123,019
Cost of sales:		
Cost of sales – standard products business	56,080	79,247
Cost of sales – transitional Fab 3 foundry services	9,017	9,390
Total cost of sales	65,097	88,637
Gross profit	38,996	34,382
Operating expenses:		
Selling, general and administrative expenses	14,163	12,634
Research and development expenses	11,954	13,423
Merger-related costs	—	9,831
Other charges	—	585
Total operating expenses	26,117	36,473
Operating income (loss)	12,879	(2,091)
Interest expense	(111)	(1,041)
Foreign currency loss, net	(690)	(4,671)
Other income, net	933	620
Income (loss) before income tax expense	13,011	(7,183)
Income tax expense	3,483	290
Net income (loss)	\$ 9,528	\$ (7,473)
Basic earnings (loss) per common share—	\$ 0.21	\$ (0.19)
Diluted earnings (loss) per common share—	\$ 0.20	\$ (0.19)
Weighted average number of shares—		
Basic	45,603,208	40,292,838
Diluted	46,693,294	40,292,838

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

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

	<u>Three Months Ended</u>	
	<u>March 31,</u> <u>2022</u>	<u>March 31,</u> <u>2021</u>
	<u>(In thousands of US dollars)</u>	
Net income (loss)	\$ 9,528	\$ (7,473)
Other comprehensive loss		
Foreign currency translation adjustments	(3,045)	(2,058)
Derivative adjustments		
Fair valuation of derivatives	(1,264)	(2,125)
Reclassification adjustment for loss (gain) on derivatives included in net income (loss)	762	(511)
Total other comprehensive loss	<u>(3,547)</u>	<u>(4,694)</u>
Total comprehensive income (loss)	<u>\$ 5,981</u>	<u>\$ (12,167)</u>

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

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

(In thousands of U.S. dollars, except share data)	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount					
Three Months Ended March 31, 2022:							
Balance at December 31, 2021	45,659,304	\$ 559	\$241,197	\$343,542	\$(130,306)	\$ (2,230)	\$452,762
Stock-based compensation	—	—	1,638	—	—	—	1,638
Exercise of stock options	151,326	1	1,780	—	—	—	1,781
Settlement of restricted stock units	168,795	2	(2)	—	—	—	—
Acquisition of treasury stock	(53,464)	—	—	—	(1,000)	—	(1,000)
Accelerated stock repurchase	(1,031,576)	—	17,217	—	(17,217)	—	—
Other comprehensive loss, net	—	—	—	—	—	(3,547)	(3,547)
Net income	—	—	—	9,528	—	—	9,528
Balance at March 31, 2022	44,894,385	\$ 562	\$261,830	\$353,070	\$(148,523)	\$ (5,777)	\$461,162
Three Months Ended March 31, 2021:							
Balance at December 31, 2020	35,783,347	\$ 450	\$163,010	\$286,834	\$(108,397)	\$ 3,703	\$345,600
Stock-based compensation	—	—	1,646	—	—	—	1,646
Exchange of exchangeable senior notes	10,144,131	101	83,639	—	—	—	83,740
Exercise of stock options	175,760	2	2,536	—	—	—	2,538
Settlement of restricted stock units	205,630	2	(2)	—	—	—	—
Acquisition of treasury stock	(51,455)	—	—	—	(1,010)	—	(1,010)
Other comprehensive loss, net	—	—	—	—	—	(4,694)	(4,694)
Net loss	—	—	—	(7,473)	—	—	(7,473)
Balance at March 31, 2021	46,257,413	\$ 555	\$250,829	\$279,361	\$(109,407)	\$ (991)	\$420,347

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

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

	Three Months Ended	
	March 31, 2022	March 31, 2021
(In thousands of U.S. dollars)		
Cash flows from operating activities		
Net income (loss)	\$ 9,528	\$ (7,473)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization	3,891	3,448
Provision for severance benefits	1,670	1,771
Amortization of debt issuance costs and original issue discount	—	261
Loss on foreign currency, net	6,380	14,873
Provision for inventory reserves	145	1,504
Stock-based compensation	1,638	1,646
Other, net	161	154
Changes in operating assets and liabilities		
Accounts receivable, net	(1,213)	9,794
Inventories	1,456	6,071
Other receivables	667	(1,438)
Other current assets	(6,829)	5,427
Accounts payable	538	(7,701)
Other accounts payable	(702)	1,570
Accrued expenses	187	2,393
Accrued income taxes	(2,346)	(10,700)
Other current liabilities	(711)	1,087
Other non-current liabilities	(73)	18
Payment of severance benefits	(1,389)	(1,493)
Other, net	(178)	12
Net cash provided by operating activities	12,820	21,224
Cash flows from investing activities		
Proceeds from settlement of hedge collateral	1,829	—
Payment of hedge collateral	(2,891)	—
Purchase of property, plant and equipment	(944)	(1,082)
Payment for intellectual property registration	(59)	(171)
Other, net	(77)	(111)
Net cash used in investing activities	(2,142)	(1,364)
Cash flows from financing activities		
Proceeds from exercise of stock options	1,781	2,538
Acquisition of treasury stock	(830)	(1,540)
Repayment of financing related to water treatment facility arrangement	(134)	(144)
Repayment of principal portion of finance lease liabilities	(16)	(16)
Net cash used in financing activities	801	838
Effect of exchange rates on cash and cash equivalents	(6,105)	(10,444)
Net increase in cash and cash equivalents	5,374	10,254
Cash and cash equivalents at beginning of period	279,547	279,940
Cash and cash equivalents at end of period	<u>\$ 284,921</u>	<u>\$ 290,194</u>
Supplemental cash flow information		
Cash paid for interest	\$ —	\$ 2,094
Cash paid for income taxes	\$ 5,421	\$ 9,633
Non-cash investing activities		
Property, plant and equipment additions in other accounts payable	\$ 524	\$ 622
Non-cash financing activities		
Exchange of exchangeable senior notes into common stock	\$ —	\$ 83,740
Acquisition of treasury stock to satisfy the tax withholding obligations in connection with equity-based compensation	\$ (996)	\$ (114)

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, computing, industrial and automotive applications.

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, computing, servers, automotive, and industrial applications.

On September 1, 2020, the Company completed the sale of the Company’s Foundry Services Group business and its fabrication facility located in Cheongju, Korea, known as “Fab 4”. Following the consummation of the sale, and for up to three years, the Company is expected to provide transitional foundry services associated with its fabrication facility located in Gumi, Korea, known as “Fab 3, at an agreed upon cost plus mark-up (the “Transitional Fab 3 Foundry Services”).

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 months ended March 31, 2022 are not necessarily indicative of the results to be expected for a full year or for any other periods.

The December 31, 2021 balance sheet data was derived from the Company’s audited financial statements, but does not include all disclosures required by U.S. GAAP. The interim consolidated financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2021.

There have been no material changes to the Company’s significant accounting policies as of and for the three months ended March 31, 2022 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, 2021.

Recently Adopted Accounting Pronouncements

In August 2020, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2020-06, “Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40)” (“ASU 2020-06”), which updates various codification topics to simplify the accounting guidance for certain financial instruments with characteristics of liabilities and equity, with a specific focus on convertible instruments and the derivative scope exception for contracts in an entity’s own equity and amends the diluted EPS computation for these instruments. The Company adopted ASU 2020-06 as of January 1, 2022, and the adoption of ASU 2020-06 did not have an impact on the Company’s consolidated financial statements.

In May 2021, the FASB issued ASU No. 2021-04, “Earnings Per Share (Topic 260), Debt-Modifications and Extinguishments (Subtopic 470-50)”, Compensation-Stock Compensation (Topic 718), and Derivatives and Hedging-Contracts in Entity’s Own Equity (Subtopic 815-40): Issuer’s Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options” (“ASU 2021-04”), ASU 2021-04 clarifies the accounting for modifications or exchanges of freestanding equity-classified written call options so that the transaction should be treated as an exchange of the original instrument for a new instrument. The Company adopted ASU 2021-04 as of January 1, 2022, and the adoption of ASU 2021-04 did not have an impact on the Company’s consolidated financial statements.

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2. Inventories

Inventories as of March 31, 2022 and December 31, 2021 consist of the following (in thousands):

	<u>March 31,</u> <u>2022</u>	<u>December 31,</u> <u>2021</u>
Finished goods	\$ 5,591	\$ 9,594
Semi-finished goods and work-in-process	25,119	25,968
Raw materials	9,839	9,443
Materials in-transit	1,953	95
Less: inventory reserve	(5,555)	(5,730)
Inventories, net	<u>\$ 36,947</u>	<u>\$ 39,370</u>

Changes in inventory reserve for the three months ended March 31, 2022 and 2021 are as follows (in thousands):

	<u>Three Months Ended</u>	
	<u>March 31,</u> <u>2022</u>	<u>March 31,</u> <u>2021</u>
Beginning balance	\$ (5,730)	\$ (5,901)
Change in reserve		
Inventory reserve charged to costs of sales	(1,607)	(2,164)
Sale of previously reserved inventory	1,452	634
	(155)	(1,530)
Write off	211	902
Translation adjustments	119	248
Ending balance	<u>\$ (5,555)</u>	<u>\$ (6,281)</u>

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.

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3. Property, Plant and Equipment

Property, plant and equipment as of March 31, 2022 and December 31, 2021 are comprised of the following (in thousands):

	<u>March 31, 2022</u>	<u>December 31, 2021</u>
Buildings and related structures	\$ 24,003	\$ 24,273
Machinery and equipment	103,386	105,300
Finance lease right-of-use assets	309	316
Others	32,682	32,396
	<u>160,380</u>	<u>162,285</u>
Less: accumulated depreciation	(95,839)	(94,119)
Land	13,608	13,898
Construction in progress	24,526	25,818
Property, plant and equipment, net	<u>\$102,675</u>	<u>\$ 107,882</u>

Aggregate depreciation expenses totaled \$3,706 thousand and \$3,262 thousand for the three months ended March 31, 2022 and 2021, respectively.

4. Intangible Assets

Intangible assets as of March 31, 2022 and December 31, 2021 are comprised of the following (in thousands):

	<u>March 31, 2022</u>		
	<u>Gross amount</u>	<u>Accumulated amortization</u>	<u>Net amount</u>
Intellectual property assets	\$9,180	\$ (6,977)	\$2,203
Intangible assets	<u>\$9,180</u>	<u>\$ (6,977)</u>	<u>\$2,203</u>
	<u>December 31, 2021</u>		
	<u>Gross amount</u>	<u>Accumulated amortization</u>	<u>Net amount</u>
Intellectual property assets	\$9,312	\$ (6,935)	\$2,377
Intangible assets	<u>\$9,312</u>	<u>\$ (6,935)</u>	<u>\$2,377</u>

Aggregate amortization expenses for intangible assets totaled \$185 thousand and \$186 thousand for the three months ended March 31, 2022 and 2021, respectively.

5. 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 4 years.

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

Supplemental balance sheets information related to leases as of March 31, 2022 and December 31, 2021 are as follows (in thousands):

Leases	Classification	March 31, 2022	December 31, 2021
Assets			
Operating lease	Operating lease right-of-use assets	\$ 3,719	\$ 4,275
Finance lease	Property, plant and equipment, net	108	126
Total lease assets		<u>\$ 3,827</u>	<u>\$ 4,401</u>
Liabilities			
Current			
Operating	Operating lease liabilities	\$ 2,223	\$ 2,323
Finance	Other current liabilities	67	68
Non-current			
Operating	Non-current operating lease liabilities	1,496	1,952
Finance	Other non-current liabilities	54	73
Total lease liabilities		<u>\$ 3,840</u>	<u>\$ 4,416</u>

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

	March 31, 2022	December 31, 2021
Weighted average remaining lease term		
Operating leases	2.3 years	2.4 years
Finance leases	1.8 years	2.0 years
Weighted average discount rate		
Operating leases	4.12%	4.20%
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	
	March 31, 2022	March 31, 2021
Operating lease cost	\$ 569	\$ 680
Finance lease cost		
Amortization of right-of-use assets	16	17
Interest on lease liabilities	2	4
Total lease cost	<u>\$ 587</u>	<u>\$ 701</u>

The above table does not include an immaterial cost of short-term leases for the three months ended March 31, 2022 and 2021.

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Other lease information is as follows (in thousands):

	Three Months Ended	
	March 31, 2022	March 31, 2021
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	\$ 569	\$ 680
Operating cash flows from finance leases	2	4
Financing cash flows from finance leases	16	16

The aggregate future lease payments for operating and finance leases as of March 31, 2022 are as follows (in thousands):

	Operating Leases	Finance Leases
Remainder of 2022	\$ 1,837	\$ 56
2023	1,079	74
2024	607	—
2025	393	—
Total future lease payments	3,916	130
Less: Imputed interest	(197)	(9)
Present value of future payments	<u>\$ 3,719</u>	<u>\$ 121</u>

6. Accrued Expenses

Accrued expenses as of March 31, 2022 and December 31, 2021 are comprised of the following (in thousands):

	March 31, 2022	December 31, 2021
Payroll, benefits and related taxes, excluding severance benefits	\$ 8,854	\$ 9,548
Withholding tax attributable to intercompany interest income	2,405	1,950
Outside service fees	1,829	1,088
Merger-related costs	6,325	7,035
Others	1,160	450
Accrued expenses	<u>\$ 20,573</u>	<u>\$ 20,071</u>

7. Derivative Financial Instruments

The Company's Korean subsidiary from time to time has entered into zero cost collar contracts to hedge the risk of changes in the functional-currency-equivalent cash flows attributable to currency rate changes on U.S. dollar denominated revenues.

Details of the zero cost collar contracts as of March 31, 2022 are as follows (in thousands):

<u>Date of transaction</u>	<u>Total notional amount</u>	<u>Month of settlement</u>
May 13, 2021	\$ 24,000	April 2022 to September 2022
August 13, 2021	\$ 39,000	April 2022 to December 2022
January 04, 2022	\$ 39,000	October 2022 to June 2023
March 07, 2022	\$ 24,000	July 2023 to December 2023

Details of the zero cost collar contracts as of December 31, 2021 are as follows (in thousands):

<u>Date of transaction</u>	<u>Total notional amount</u>	<u>Month of settlement</u>
May 13, 2021	\$ 39,000	January 2022 to September 2022
August 13, 2021	\$ 48,000	January 2022 to December 2022

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 March 31, 2022 and December 31, 2021 are as follows (in thousands):

<u>Derivatives designated as hedging instruments:</u>		<u>March 31, 2022</u>	<u>December 31, 2021</u>
Asset Derivatives:			
Zero cost collars	Other non-current assets	\$ 94	\$ —
Liability Derivatives:			
Zero cost collars	Other current liabilities	\$ 2,421	\$ 2,020
Zero cost collars	Other non-current liabilities	\$ 149	\$ —

Offsetting of derivative assets and liabilities as of March 31, 2022 is as follows (in thousands):

<u>As of March 31, 2022</u>	<u>Gross amounts of recognized assets/liabilities</u>	<u>Gross amounts offset in the balance sheets</u>	<u>Net amounts of assets/liabilities presented in the balance sheets</u>	<u>Gross amounts not offset in the balance sheets</u>		<u>Net amount</u>
				<u>Financial instruments</u>	<u>Cash collateral pledged</u>	
Asset Derivatives:						
Zero cost collars	\$ 94	\$ —	\$ 94	\$ —	\$ —	\$ 94
Liability Derivatives:						
Zero cost collars	\$ 2,570	\$ —	\$ 2,570	\$ —	\$ (3,060)	\$ (490)

Offsetting of derivative liabilities as of December 31, 2021 is as follows (in thousands):

<u>As of December 31, 2021</u>	<u>Gross amounts of recognized liabilities</u>	<u>Gross amounts offset in the balance sheets</u>	<u>Net amounts of liabilities presented in the balance sheets</u>	<u>Gross amounts not offset in the balance sheets</u>		<u>Net amount</u>
				<u>Financial instruments</u>	<u>Cash collateral pledged</u>	
Liability Derivatives:						
Zero cost collars	\$ 2,020	\$ —	\$ 2,020	\$ —	\$ (2,060)	\$ (40)

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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 months ended March 31, 2022 and 2021 (in thousands):

Derivatives in ASC 815 Cash Flow Hedging Relationships	Amount of Loss Recognized in AOCI on Derivatives		Location/Amount of Gain (Loss) Reclassified from AOCI Into Statement of Operations	Location/Amount of Loss Recognized in Statement of Operations on Derivatives				
	Three Months Ended March 31,			Three Months Ended March 31,				
	2022	2021		2022	2021			
Zero cost collars	\$ (1,264)	\$ (2,125)	Net sales	\$ (762)	\$ 511	Other income, net	\$ (129)	\$ (86)
	<u>\$ (1,264)</u>	<u>\$ (2,125)</u>		<u>\$ (762)</u>	<u>\$ 511</u>		<u>\$ (129)</u>	<u>\$ (86)</u>

As of March 31, 2022, the amount expected to be reclassified from accumulated other comprehensive loss into loss within the next 12 months is \$1,907 thousand.

The Company set aside cash deposits to the counterparties, Nomura Financial Investment (Korea) Co., Ltd. (“NFIK”) and Standard Chartered Bank Korea Limited (“SC”), as required for the zero cost collar contracts. These cash deposits are recorded as hedge collateral on the consolidated balance sheets. Cash deposits as of March 31, 2022 and December 31, 2021 are as follows (in thousands):

Counterparties	March 31, 2022	December 31, 2021
SC	\$ 1,000	\$ 1,000
Total	<u>\$ 1,000</u>	<u>\$ 1,000</u>

The Company is required to deposit additional cash collateral with NFIK and SC for any exposure in excess of \$500 thousand. As of March 31, 2022, \$2,360 thousand and \$700 thousand of additional cash collateral was required by NFIK and SC, respectively, and recorded as hedge collateral on the consolidated balance sheet. As of December 31, 2021, \$760 thousand and \$1,300 thousand of additional cash collateral was required by NFIK and SC, respectively, and recorded as hedge collateral on the consolidated balance sheet.

These zero cost collar contracts may be terminated by the counterparties 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.

[Table of Contents](#)**8. Fair Value Measurements***Fair Value of Financial Instruments*

As of March 31, 2022, 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):

	<u>Carrying Value March 31, 2022</u>	<u>Fair Value Measurement March 31, 2022</u>	<u>Quoted Prices in Active Markets for Identical Asset / Liability (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Assets:					
Derivative assets (other non-current assets)	\$ 94	\$ 94	—	\$ 94	—
Liabilities:					
Derivative liabilities (other current liabilities)	\$ 2,421	\$ 2,421	—	\$ 2,421	—
Derivative liabilities (other non-current liabilities)	\$ 149	\$ 149	—	\$ 149	—

As of December 31, 2021, the following table represents the Company's liabilities measured at fair value on a recurring basis and the basis for that measurement (in thousands):

	<u>Carrying Value December 31, 2021</u>	<u>Fair Value Measurement December 31, 2021</u>	<u>Quoted Prices in Active Markets for Identical Liability (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Liabilities:					
Derivative liabilities (other current liabilities)	\$ 2,020	\$ 2,020	—	\$ 2,020	—

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.

9. 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 March 31, 2022, 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	
	March 31, 2022	March 31, 2021
Beginning balance	\$ 51,567	\$ 54,452
Provisions	1,670	1,771
Severance payments	(1,389)	(1,493)
Translation adjustments	(1,077)	(2,177)
	<u>50,771</u>	<u>52,553</u>
Less: Cumulative contributions to severance insurance deposit accounts	(17,954)	(13,212)
The National Pension Fund	(50)	(61)
Group severance insurance plan	(195)	(210)
Accrued severance benefits, net	<u>\$ 32,572</u>	<u>\$ 39,070</u>

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.

Beginning in July 2018, the Company contributes 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 2022	\$ 253
2023	631
2024	923
2025	1,505
2026	2,183
2027	1,746
2028 – 2032	20,679

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.

10. Foreign Currency 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 March 31, 2022 and December 31, 2021, the outstanding intercompany loan balances including accrued interest between the Korean subsidiary and the Dutch subsidiary were \$ 348,477 thousand and \$344,411 thousand, respectively. The Korean won to U.S. dollar exchange rates were 1,210.8:1 and 1,185.5:1 using the first base rate as of March 31, 2022 and December 31, 2021, respectively, as quoted by the KEB Hana Bank.

11. 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.

For the three months ended March 31, 2022, the Company recorded an income tax expense of \$3,483 thousand, primarily related to its primary operating entity in Korea based on the estimated taxable income for the respective period.

For the three months ended March 31, 2021, the Company recorded an income tax expense of \$290 thousand, primarily attributable to interest on intercompany loan balances, which was offset in part by the tax benefit recognized on the loss for the first quarter of 2021 from the Company's Korean subsidiary.

12. Geographic and Other Information

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

	Three Months Ended	
	March 31, 2022	March 31, 2021
Revenues		
Standard products business		
Display Solutions	\$ 29,185	\$ 58,895
Power Solutions	64,825	54,011
Total standard products business	<u>\$ 94,010</u>	<u>\$ 112,906</u>
Transitional Fab 3 foundry services	10,083	10,113
Total revenues	<u>\$104,093</u>	<u>\$ 123,019</u>

	Three Months Ended	
	March 31, 2022	March 31, 2021
Gross Profit		
Standard products business	\$ 37,930	\$ 33,659
Transitional Fab 3 foundry services	1,066	723
Total gross profit	<u>\$ 38,996</u>	<u>\$ 34,382</u>

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	
	March 31, 2022	March 31, 2021
Korea	\$ 31,030	\$ 26,434
Asia Pacific (other than Korea)	58,260	83,740
United States	2,864	1,274
Europe	1,856	1,243
Others	—	215
Total	<u>\$ 94,010</u>	<u>\$ 112,906</u>

For the three months ended March 31, 2022 and 2021, of the Company's net sales – standard products business in Asia Pacific (other than Korea), net sales – standard products business in China and Hong Kong together represented 71.1% and 57.1%, respectively, and net sales—standard products business in Vietnam represented 14.4% and 37.4%, 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 72% and 82% for the three months ended March 31, 2022 and 2021, respectively.

For the three months ended March 31, 2022, the Company had two customers that represented 25.5% and 12.9% of its net sales – standard products business, respectively. For the three months ended March 31, 2021, the Company had two customers that represented 48.8% and 10.0% of its net sales – standard products business, respectively.

As of March 31, 2022, two customers accounted for 17.0% and 16.7% of accounts receivable, respectively. As of December 31, 2021, two customers accounted for 25.6% and 18.6% of accounts receivable, respectively.

13. Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss consists of the following as of March 31, 2022 and December 31, 2021, respectively (in thousands):

	March 31, 2022	December 31, 2021
Foreign currency translation adjustments	\$ (3,815)	\$ (770)
Derivative adjustments	(1,962)	(1,460)
Total	<u>\$ (5,777)</u>	<u>\$ (2,230)</u>

Changes in accumulated other comprehensive loss for the three months ended March 31, 2022 and 2021 are as follows (in thousands):

	Foreign currency translation adjustments	Derivative adjustments	Total
Three Months Ended March 31, 2022			
Beginning balance	\$ (770)	\$ (1,460)	\$ (2,230)
Other comprehensive loss before reclassifications	(3,045)	(1,264)	(4,309)
Amounts reclassified from accumulated other comprehensive loss	—	762	762
Net current-period other comprehensive loss	(3,045)	(502)	(3,547)
Ending balance	<u>\$ (3,815)</u>	<u>\$ (1,962)</u>	<u>\$ (5,777)</u>

	Foreign currency translation adjustments	Derivative adjustments	Total
Three Months Ended March 31, 2021			
Beginning balance	\$ 2,069	\$ 1,634	\$ 3,703
Other comprehensive loss before reclassifications	(2,058)	(2,125)	(4,183)
Amounts reclassified from accumulated other comprehensive income	—	(511)	(511)
Net current-period other comprehensive loss	(2,058)	(2,636)	(4,694)
Ending balance	<u>\$ 11</u>	<u>\$ (1,002)</u>	<u>\$ (991)</u>

14. Stockholders' Equity

Accelerated Stock Repurchase Program

On December 21, 2021, the Board of Directors authorized the Company to repurchase up to \$75,000 thousand of the Company's outstanding common stock and the Company entered into an accelerated stock repurchase agreement (the "ASR Agreement") with JPMorgan Chase Bank, National Association ("JPM") to repurchase an aggregate of \$37,500 thousand of the Company's common stock.

Pursuant to the terms of the ASR Agreement dated December 21, 2021, the Company paid to JPM \$37,500 thousand in cash and received an initial delivery of 994,695 shares of its common stock in the open market for an aggregate purchase price of \$20,073 thousand and a price per share of \$20.18 on December 22, 2021.

As of December 31, 2021, the Company accounted for the remaining portion of the ASR Agreement as a forward contract indexed to its own common stock and recorded \$17,427 thousand in additional paid-in capital in stockholders' equity in its consolidated balance sheets.

In March 2022, the previously announced repurchase of \$37,500 thousand of the Company's common stock was completed pursuant to the ASR Agreement, and as a result, the Company additionally received 1,031,576 shares of its common stock for an aggregate purchase price of \$17,217 thousand at a price per share of \$16.69, which was reclassified as a treasury stock from additional paid-in capital in stockholder's equity in its consolidated balance sheets.

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15. Earnings (Loss) Per Share

The following table illustrates the computation of basic and diluted earnings (loss) per common share for the three months ended March 31, 2022 and 2021:

	Three Months Ended	
	March 31, 2022	March 31, 2021
Basic Earnings (Loss) per Share		
Net income (loss)	\$ 9,528	\$ (7,473)
Basic weighted average common stock outstanding	45,603,208	40,292,838
Basic earnings (loss) per share	\$ 0.21	\$ (0.19)
Diluted Earnings (Loss) per Share		
Net income (loss)	\$ 9,528	\$ (7,473)
Basic weighted average common stock outstanding	45,603,208	40,292,838
Net effect of dilutive equity awards	1,090,086	—
Diluted weighted average common stock outstanding	46,693,294	40,292,838
Diluted earnings (loss) per share	\$ 0.20	\$ (0.19)

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	
	March 31, 2022	March 31, 2021
Options	130,000	1,471,421
Restricted Stock Units	—	1,109,572

For the three months ended March 31, 2021, 5,783,919 shares of potential common stock from the assumed conversion of Exchangeable Notes were excluded from the computation of diluted loss per share as the effect were anti-dilutive for the period.

Rights Plan

The Company entered into a Rights Agreement, dated as of December 13, 2021, between the Company and American Stock Transfer & Trust Company, LLC, as rights agent (the “Rights Agreement”), and the Board of Directors of the Company authorized and declared a dividend of one preferred stock purchase right (a “Right” and collectively, the “Rights”) for each share of the Company’s common stock, par value \$0.01 per share, outstanding at the close of business on December 23, 2021. Each Right, once exercisable, will entitle the registered holder to purchase from the Company one one-thousandth of a share of Series A-1 Junior Participating Preferred Stock, par value \$0.01 per share, at a purchase price of \$80, subject to adjustment (the “Purchase Price”). The Rights are not presently exercisable and remain attached to the shares of common stock unless and until the occurrence of the earlier of the following (the “Distribution Date”): (i) the tenth day after the public announcement or disclosure by the Company or any person or group of affiliated or associated persons that any person or group of affiliated or associated persons has become an “Acquiring Person” by obtaining beneficial ownership of 12.5% (or 20% in the case of a “passive institutional investor,” which is defined generally as any person who has reported beneficial ownership of shares of common stock on Schedule 13G under the Securities Exchange Act of 1934) or more of the Company’s outstanding common stock, subject to certain exceptions; or (ii) the tenth business day (or such later date as the Company’s Board of Directors may designate before a person or group of affiliated or associated persons becomes an Acquiring Person) after (and not including) the commencement of, or first public announcement of the intent of any person to commence, a tender or exchange offer by any person or group of affiliated or associated persons, which would, if consummated, result in such person or group becoming an Acquiring Person. The Board of Directors may redeem all of the Rights for \$0.001 per Right at any time before any person or group of affiliated or associated persons becomes an Acquiring Person. In addition, at any time on or after any person or group of affiliated or associated persons becomes an Acquiring Person (but before any person or group of affiliated or associated persons becomes the owner of 50% or more of the Company’s outstanding common stock), the Board of Directors may exchange all or part of the Rights (other than the Rights beneficially owned by the Acquiring Person and certain affiliated persons) for shares of common stock at an exchange ratio of one share of common stock per Right. The Rights will expire at the close of business on December 12, 2022, unless redeemed or exchanged prior to that time.

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If any person or group of affiliated or associated persons becomes an Acquiring Person, then, after the Distribution Date, each Right (other than Rights beneficially owned by the Acquiring Person and certain affiliated persons or transferees thereof) will entitle the holder to purchase, for the Purchase Price, a number of shares of common stock having a market value of twice the Purchase Price. Alternatively, if, after any person or group of affiliated or associated persons becomes an Acquiring Person, (1) the Company is involved in a merger or other business combination in which the Company is not the surviving corporation or its common stock is changed into or exchanged for other securities or assets; or (2) the Company or one or more of its subsidiaries sell or otherwise transfer assets or earning power aggregating more than 50% of the assets or earning power of the Company and its subsidiaries, taken as a whole, then each Right (other than Rights beneficially owned by the Acquiring Person and certain affiliated persons) will entitle the holder to purchase, for the Purchase Price, a number of shares of common stock of the other party to such business combination or sale (or in certain circumstances, an affiliate) having a market value of twice the Purchase Price.

16. Merger Agreement

On March 25, 2021, the Company, South Dearborn Limited, an exempted company incorporated in the Cayman Islands with limited liability (“Parent”), formed by an affiliate of Wise Road Capital LTD (“Wise Road”), and Michigan Merger Sub, Inc., a Delaware corporation and a wholly owned subsidiary of Parent (“Merger Sub”), entered into an Agreement and Plan of Merger (as amended, the “Merger Agreement”), providing for, among other things and subject to the terms and conditions thereof, the merger of Merger Sub with and into the Company (the “Merger”), with the Company surviving the Merger as a wholly owned subsidiary of Parent.

The closing of the Merger was subject to certain conditions, including clearance by the Committee on Foreign Investment in the United States (“CFIUS”) under the Defense Production Act of 1950, as amended. The Company and Parent were advised that CFIUS clearance of the Merger would not be forthcoming and received permission from CFIUS to withdraw their joint filing. In connection therewith, the Company and Parent entered into a Termination and Settlement Agreement, dated December 13, 2021 (the “Termination Agreement”), pursuant to which Parent agreed to pay \$70,200 thousand (the “Termination Fee”) to the Company on the terms specified in the Termination Agreement in satisfaction of Parent’s obligation to pay a termination fee in connection with the termination of the Merger Agreement. On December 20, 2021, the Merger Agreement was terminated pursuant to the Termination Agreement after the Company’s receipt of a fee of \$51,000 thousand from Parent and a standby letter of credit, which secures a deferred fee of \$19,200 thousand from Parent due on or before March 31, 2022. As of March 31, 2022, of the Termination Fee, \$19,200 thousand deferred fee was recorded as other receivables.

For the three months ended March 31, 2021, the Company incurred \$9,831 thousand of professional fees and certain transaction related-expenses incurred in connection with the Merger, which were recognized in merger-related costs in the consolidated statements of operations.

17. Commitments and Contingencies

Advances to Suppliers

The Company, from time to time, may make advances in form of prepayments or deposits to suppliers, including external foundries, to meet its planned production. The Company recorded advances of \$8,001 thousand and \$1,708 thousand as other current assets as of March 31, 2022 and December 31, 2021, 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. 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. Although some of these restrictions and other containment measures have since been lifted or scaled back, ongoing surges of COVID-19 have in some cases resulted in the re-imposition of certain restrictions and containment measures, and may continue to lead to other restrictions being re-implemented in the foreseeable future in response to efforts to reduce the rapid spread of COVID-19.

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 the COVID-19 pandemic. To date, its external Display Solutions business contractors and sub-contractors have not been materially impacted by the COVID-19 pandemic. The Company is, however, unable to accurately predict the full impact that the COVID-19 pandemic will have on its future results of operations due to numerous uncertainties. The extent to which the COVID-19 pandemic impacts the Company's business, results of operations and financial condition will depend on future developments, which, despite progress in vaccination efforts, are highly uncertain and cannot be predicted with confidence, including the duration of the outbreak, new information that may emerge concerning the severity of the COVID-19 pandemic, such as new strains of the virus, including the Delta and Omicron variants and any future variants that may emerge, which may impact rates of infection and vaccination efforts, developments or perceptions regarding the safety of vaccines and the extent and effectiveness of actions to contain the COVID-19 pandemic or treat its impact, including vaccination campaigns and lockdown measures, among others. In addition, recurrences or additional waves of COVID-19 cases could cause other widespread or more severe impacts depending on where infection rates are highest. The Company cannot presently predict the scope and severity of any potential business shutdowns or disruptions, but if the Company or any of its customers and suppliers were to experience prolonged business shutdowns or other disruptions, its ability to conduct its business could be materially and negatively affected, which could have a material adverse impact on its business, results of operations and financial condition.

The Company continues to closely monitor and evaluate the nature and scope of the impact of the COVID-19 pandemic 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 ongoing and uncertain global health crisis and the resulting global economic consequences.

18. Subsequent Events

The Terminated Merger

The Merger Agreement was previously terminated on December 20, 2021 pursuant to the Termination Agreement following the Company's receipt of a portion of the Termination Fee equal to \$51,000 thousand from Parent and the issuance of a standby letter of credit, which secured a deferred portion of the Termination Fee equal to \$19,200 thousand from Parent due on or before March 31, 2022. In connection therewith, the Company, Parent and Wise Road entered into a first amendment to the Termination Agreement, dated April 4, 2022, pursuant to which Parent agreed to pay the Company \$19,200 thousand, of which \$14,400 thousand has been paid on April 4, 2022 and payment of the remaining \$4,800 thousand (which amount is secured by a new standby letter of credit, dated April 4, 2022), will be paid by Parent on or before June 30, 2022.

Derivative contracts

In April 2022, the Company and NFIK entered into derivative contracts of zero cost collars for the period from April 2023 to December 2023. The total notional amounts are \$33,000 thousand.

In April 2022, the Company and SC entered into derivative contracts of zero cost collars for the period from October 2022 to March 2023. The total notional amounts are \$18,000 thousand.

FORWARD LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (this “Report”) 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 for our fiscal year ended December 31, 2021 filed on February 23, 2022 (“2021 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 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.

Overview

We are a designer and manufacturer of analog and mixed-signal semiconductor platform solutions for communications, IoT applications, consumer, computing, industrial and automotive applications. We have a proven record with more than 40 years of operating history, a portfolio of approximately 1,150 registered patents and pending applications and extensive engineering and manufacturing process expertise.

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

Our Display Solutions line of products provide flat panel display solutions to major suppliers of large and small flat panel displays. These products include source and gate drivers and timing controllers that cover a wide range of flat panel displays used in mobile communications, automobiles, entertainment devices, notebook PCs, monitors and liquid crystal display (LCD), organic light emitting diodes (OLED) and Micro light emitting diode (Micro LED) televisions. Our Display Solutions products support some of the industry’s most advanced display technologies, such as OLEDs, low temperature polysilicon thin film transistors (LTPS TFTs), as well as high-volume display technologies such as amorphous silicon thin film transistors (a-Si TFTs). Since 2007, we have designed and manufactured OLED display driver integrated circuit (IC) products. Our current portfolio of OLED solutions address a wide range of resolutions ranging from HD (High Definition) to WQHD (Wide Quadruple High Definition) for applications including smartphones, TVs, and other mobile devices.

Our Power Solutions business line produces power management semiconductor products including discrete and integrated circuit solutions for power management in communications, consumer, computing, servers, automotive, and industrial applications. These products include metal oxide semiconductor field effect transistors (MOSFETs), insulated-gate bipolar transistors (IGBTs), AC-DC/DC-DC converters, LED drivers, regulators and power management integrated circuits (PMICs) for a range of devices, including televisions, smartphones, mobile phones, wearable devices, desktop PCs, notebooks, tablet PCs, other consumer electronics, automotive, and industrial applications such as power suppliers, e-bikes, solar inverters, LED lighting and motor drives.

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. Certain of our OLED products are produced using external 12-inch foundries. Through a strategic cooperation with external 12-inch foundries, we are managing to ensure outsourcing wafers at competitive price and produce quality products.

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 and industrial 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 continually strive to diversify 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.

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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 into 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 certain 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 internally manufactured 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 and 8-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 had 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 external 12-inch foundries starting in the second half of 2015 and we have started outsourcing 8-inch wafer for OLED TV IC after the sale of our fabrication facility located in Cheongju. This additional source of manufacturing is an increasingly important part of our supply chain management. By outsourcing manufacturing of OLED products to external foundries, we are able to adapt dynamically to changing customer requirements and address growing markets without substantial capital investments by us. However, relying on external foundries exposes us to the risk of being unable to secure manufacturing capacity, particularly under the current global shortage of foundry services. Although we are working strategically with external foundries to ensure long-term wafer capacity, if these efforts are unsuccessful, our ability to deliver products to our customers may be negatively impacted, which would adversely affect our relationship with customers and opportunities to secure new design-wins.

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

Accelerated Stock Repurchase Program

On December 21, 2021, our Board of Directors authorized the repurchase of up to \$75.0 million of our outstanding common stock and we entered into an accelerated stock repurchase agreement (the “ASR Agreement”) with JPMorgan Chase Bank, National Association (“JPM”) to repurchase an aggregate of \$37.5 million of our common stock.

Pursuant to the terms of the ASR Agreement dated December 21, 2021, we paid to JPM \$37.5 million in cash and received an initial delivery of 994,695 shares of our common stock in the open market for an aggregate purchase price of \$20.1 million at a price per share of \$20.18 on December 22, 2021.

As of December 31, 2021, we accounted for the remaining portion of the ASR Agreement as a forward contract indexed to our common stock and recorded \$17.4 million in additional paid-in capital in stockholders’ equity in our consolidated balance sheets.

In March 2022, the previously announced repurchase of \$37.5 million of our common stock was completed pursuant to the ASR Agreement, and as a result, we additionally received 1,031,576 shares of our common stock for an aggregate purchase price of \$17.2 million at a price per share of \$16.69, which was reclassified as a treasury stock from additional paid-in capital in stockholder’s equity in our consolidated balance sheets.

Additional details about the ASR Agreement are contained in the Current Report on Form 8-K filed by us with the Securities and Exchange Commission, or the SEC on March 14, 2022.

Global Semiconductor Chip Shortage

Recent sharp increases in demand for semiconductor products have resulted in a global shortage of manufacturing capacity. As a result, we may experience increased costs to manufacture our products and may not be able to manufacture and deliver all of the orders placed by our customers. Specifically, if we are unable to secure manufacturing capacity from the external foundries we rely on, our ability to deliver products to our customers may be negatively impacted. Also, this shortage of manufacturing capacity may lead to an increase in our manufacturing costs. Our principal pricing strategy is to pass on the increased manufacturing costs to our customers; however, we may not be fully able to do this in all cases. Total revenues for the three months ended March 31, 2022 were severely impacted by these persisting supply shortages, in particular for 28nm 12-inch OLED wafers.

In an effort to minimize the potential adverse impact of the supply shortage, we are working strategically with certain external foundries to help ensure long-term wafer capacity. If these efforts are unsuccessful, however, such shortage could limit our ability to meet demand for our products in the future, which would adversely affect our reputation and competitive position, resulting in a negative impact on results of operations.

We are not able to foresee when the current shortage of manufacturing capacity will subside. A prolonged global supply shortage could negatively impact our financial condition, potentially resulting in a need for additional capital to fund strategic initiatives or operating activities.

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. 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. Although some of these restrictions and other containment measures have since been lifted or scaled back, ongoing surges of COVID-19 have, in some cases, resulted in the re-imposition of certain restrictions and containment measures, and may continue to lead to other restrictions being re-implemented in the foreseeable future in response to efforts to reduce the rapid spread of COVID-19.

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 the COVID-19 pandemic. To date, our external Display Solutions business contractors and sub-contractors have not been materially impacted by the COVID-19 pandemic. We are, however, unable to accurately predict the full impact that the COVID-19 pandemic will have on future results of operations due to numerous uncertainties. The extent to which the COVID-19 pandemic impacts our business, results of operations and financial condition will depend on future developments, which, despite progress in vaccination efforts, are highly uncertain and cannot be predicted with confidence, including the duration of the outbreak, new information that may emerge concerning the severity of the COVID-19 pandemic, such as new strains of the virus,

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including the Delta and Omicron variants and any future variants that may emerge, which may impact rates of infection and vaccination efforts, developments or perceptions regarding the safety of vaccines and the extent and effectiveness of actions to contain the COVID-19 pandemic or treat its impact, including vaccination campaigns and lockdown measures, among others. In addition, recurrences or additional waves of COVID-19 cases could cause other widespread or more severe impacts depending on where infection rates are highest. We cannot presently predict the scope and severity of any potential business shutdowns or disruptions, but if we or any of our customers and suppliers were to experience prolonged business shutdowns or other disruptions, our ability to conduct our business could be materially and negatively affected, which could have a material adverse impact on our business, results of operations and financial condition.

We continue to closely monitor and evaluate the nature and scope of the impact of the COVID-19 pandemic 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 ongoing 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 this 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, net, (iii) derivative valuation loss, net, (iv) merger-related costs and (v) other charges. EBITDA for the periods indicated is defined as net income (loss) before interest expense (income), 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 a 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 a 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 is as follows:

	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
	(Dollars in millions)	
Net Income (loss)	\$ 9.5	\$ (7.5)
Interest expense (income), net	(0.6)	0.4
Income tax expense	3.5	0.3
Depreciation and amortization	3.9	3.4
EBITDA	16.3	(3.3)
Adjustments:		
Equity-based compensation expense(a)	1.6	1.6
Foreign currency loss, net(b)	0.7	4.7
Derivative valuation loss, net(c)	0.1	0.1
Merger-related costs(d)	—	9.8
Other charges(e)	—	0.6
Adjusted EBITDA	<u>\$ 18.8</u>	<u>\$ 13.5</u>

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- (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 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) For the three months ended March 31, 2021, this adjustment eliminates \$9.8 million in non-recurring professional service fees and expenses incurred in connection with the contemplated Merger transaction (see “Note 16. Merger Agreement” to our consolidated financial statements under “Item 1. Interim Consolidated Financial Statements”). As this adjustment meaningfully impacted our operating results and are not expected to represent an ongoing operating expense or income to us, we believe our operating performance results are more usefully compared if this adjustment is excluded.
- (e) For the three months ended March 31, 2021, this adjustment eliminates \$0.6 million non-recurring professional service fees and expenses incurred in connection with the regulatory requests. As this adjustment meaningfully impacted our operating results and are not expected to represent an ongoing operating expense or income to us, we believe our operating performance results are more usefully compared if this adjustment is excluded.

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.

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We present Adjusted Operating Income as supplemental measures of our performance. We prepare Adjusted Operating Income by adjusting operating income (loss) 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) merger-related costs and (iii) other charges.

The following table summarizes the adjustments to operating income (loss) that we make in order to calculate Adjusted Operating Income for the periods indicated:

	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
	(Dollars in millions)	
Operating income (loss)	\$ 12.9	\$ (2.1)
Adjustments:		
Equity-based compensation expense(a)	1.6	1.6
Merger-related costs(b)	—	9.8
Other charges(c)	—	0.6
Adjusted Operating Income	<u>\$ 14.5</u>	<u>\$ 10.0</u>

- (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) For the three months ended March 31, 2021, this adjustment eliminates \$9.8 million non-recurring professional service fees and expenses incurred in connection with the contemplated Merger transaction (see “Note 16. Merger Agreement” to our consolidated financial statements under “Item 1. Interim Consolidated Financial Statements”). As this adjustment meaningfully impacted our operating results and are not expected to represent an ongoing operating expense or income to us, we believe our operating performance results are more usefully compared if this adjustment is excluded.
- (c) For the three months ended March 31, 2021, this adjustment eliminates \$0.6 million non-recurring professional service fees and expenses incurred in connection with the regulatory requests. As this adjustment meaningfully impacted our operating results and are not expected to represent an ongoing operating expense or income to us, we believe our operating performance results are more usefully compared if this adjustment is excluded.

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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, net, (iii) derivative valuation loss, net, (iv) merger-related costs, (v) other charges and (vi) income tax effect on non-GAAP adjustments.

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

	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
	(Dollars in millions, except per share data)	
Net Income (Loss)	\$ 9.5	\$ (7.5)
Adjustments:		
Equity-based compensation expense(a)	1.6	1.6
Foreign currency loss, net(b)	0.7	4.7
Derivative valuation loss, net(c)	0.1	0.1
Merger-related costs(d)	—	9.8
Other charges(e)	—	0.6
Income tax effect on non-GAAP adjustments(f)	1.0	—
Adjusted Net Income	<u>\$ 12.9</u>	<u>\$ 9.3</u>
Reported earnings (loss) per share—basic	\$ 0.21	\$ (0.19)
Reported earnings (loss) per share—diluted	\$ 0.20	\$ (0.19)
Weighted average number of shares—basic	45,603,208	40,292,838
Weighted average number of shares—diluted	46,693,294	40,292,838
Adjusted earnings per share—basic	\$ 0.28	\$ 0.23
Adjusted earnings per share—diluted	\$ 0.28	\$ 0.22
Weighted average number of shares—basic	45,603,208	40,292,838
Weighted average number of shares—diluted	46,693,294	47,470,416

- (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 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.

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- (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) For the three months ended March 31, 2021, this adjustment eliminates \$9.8 million non-recurring professional service fees and expenses incurred in connection with the contemplated Merger transaction (see “Note 16. Merger Agreement” to our consolidated financial statements under “Item 1. Interim Consolidated Financial Statements”). As this adjustment meaningfully impacted our operating results and are not expected to represent an ongoing operating expense or income to us, we believe our operating performance results are more usefully compared if this adjustment is excluded.
- (e) For the three months ended March 31, 2021, this adjustment eliminates \$0.6 million non-recurring professional service fees and expenses incurred in connection with the regulatory requests. As this adjustment meaningfully impacted our operating results and are not expected to represent an ongoing operating expense or income to us, we believe our operating performance results are more usefully compared if this adjustment is excluded.
- (f) For the three months ended March 31, 2022, this adjustment eliminates the income tax effect on non-GAAP adjustments of \$1.0 million related to our Korean subsidiary using a calculation method that we compare the tax expense of our Korean subsidiary with and without the non-GAAP adjustments.

We believe that all adjustments to net income (loss) used to calculate Adjusted Net Income was 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 as a supplement.

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 mobile 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 offices near concentrations of major customers. Our sales offices are located in Korea, Japan, Taiwan 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 a customer obtains control of the product, which is generally upon product shipment, delivery at the customer's location or upon customer acceptance, depending on the terms of the arrangement. For the three months ended March 31, 2022 and 2021, we sold products to 140 and 145 customers, respectively, and our net sales to our ten largest customers represented 72% and 82% of our net sales—standard products business, respectively.

We will provide the Transitional Fab 3 Foundry Services up to September 1, 2023 at an agreed upon cost plus a 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 March 31, 2022, 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 28-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.

Impact of Foreign Currency Exchange Rates on Reported Results of Operations. Historically, a portion of our revenues and cost of sales and greater than the majority of our operating expenses 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 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 March 31, 2022, the outstanding intercompany loan balance including accrued interest between our Korean subsidiary and our Dutch subsidiary was \$348.5 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 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 zero cost collar contracts must be cash collateralized if our exposure exceeds certain specified thresholds. These zero cost collar contracts may be terminated by a counterparty in a number of circumstances, including 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 basis 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 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.

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.

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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.

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Results of Operations – Comparison of Three Months Ended March 31, 2022 and 2021

The following table sets forth consolidated results of operations for the three months ended March 31, 2022 and 2021:

	Three Months Ended March 31, 2022		Three Months Ended March 31, 2021		Change Amount
	Amount	% of Total Revenues	Amount	% of Total Revenues	
(Dollars in millions)					
Revenues					
Net sales – standard products business	\$ 94.0	90.3%	\$ 112.9	91.8%	\$ (18.9)
Net sales – transitional Fab 3 foundry services	10.1	9.7	10.1	8.2	(0.0)
Total revenues	104.1	100.0	123.0	100.0	(18.9)
Cost of sales					
Cost of sales – standard products business	56.1	53.9	79.2	64.4	(23.2)
Cost of sales – transitional Fab 3 foundry services	9.0	8.7	9.4	7.6	(0.4)
Total cost of sales	65.1	62.5	88.6	72.1	(23.5)
Gross profit	39.0	37.5	34.4	27.9	4.6
Selling, general and administrative expenses	14.2	13.6	12.6	10.3	1.5
Research and development expenses	12.0	11.5	13.4	10.9	(1.5)
Merger-related costs	—	—	9.8	8.0	(9.8)
Other charges	—	—	0.6	0.5	(0.6)
Operating income (loss)	12.9	12.4	(2.1)	(1.7)	15.0
Interest expense	(0.1)	(0.1)	(1.0)	(0.8)	0.9
Foreign currency loss, net	(0.7)	(0.7)	(4.7)	(3.8)	4.0
Others, net	0.9	0.9	0.6	0.5	0.3
	0.1	0.1	(5.1)	(4.1)	5.2
Income (loss) before income tax expense	13.0	12.5	(7.2)	(5.8)	20.2
Income tax expense	3.5	3.3	0.3	0.2	3.2
Net income (loss)	\$ 9.5	9.2	\$ (7.5)	(6.1)	\$ 17.0

	Three Months Ended March 31, 2022		Three Months Ended March 31, 2021		Change Amount
	Amount	% of Total Revenues	Amount	% of Total Revenues	
(Dollars in millions)					
Revenues					
Net sales – standard products business					
Display Solutions	\$ 29.2	28.0%	\$ 58.9	47.9%	\$ (29.7)
Power Solutions	64.8	62.3	54.0	43.9	10.8
Total standard products business	94.0	90.3	112.9	91.8	(18.9)
Net sales – transitional Fab 3 foundry services	10.1	9.7	10.1	8.2	(0.0)
Total revenues	\$ 104.1	100.0%	\$ 123.0	100.0%	\$ (18.9)

	Three Months Ended March 31, 2022		Three Months Ended March 31, 2021		Change Amount
	Amount	% of Net Sales	Amount	% of Net Sales	
(Dollars in millions)					
Gross Profit					
Gross profit – standard products business	\$ 37.9	40.3%	\$ 33.7	29.8%	\$ 4.3
Gross profit – transitional Fab 3 foundry services	1.1	10.6	0.7	7.1	0.3
Total gross profit	\$ 39.0	37.5%	\$ 34.4	27.9%	\$ 4.6

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Revenues

Total revenues were \$104.1 million for the three months ended March 31, 2022, an \$18.9 million, or 15.4%, decrease compared to \$123.0 million for the three months ended March 31, 2021. 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 \$94.0 million for the three months ended March 31, 2022, an \$18.9 million, or 16.7%, decrease compared to \$112.9 million for the three months ended March 31, 2021. The decrease in net sales from our Display Solutions business line was primarily attributable to a decrease in revenue from our mobile OLED display driver ICs stemming from a continuing severe shortage in manufacturing capacity (in particular for 28nm 12-inch OLED wafers), as we outsource manufacturing of these products to external 12-inch foundries, and lower customer demand resulting from a slowdown in the Chinese smartphone market in the first quarter of 2022, which was offset in part by a higher demand for our OLED TV DDIC and auto-LCD DDIC. The increase in net sales from our Power Solutions business line was attributable to a strong demand for power products such as MOSFETs, including high-end MOSFETs, primarily for TVs, smartphones and industrial applications, and IGBTs mainly for solar inverters.

The transitional Fab 3 foundry services. Net sales from the transitional Fab 3 foundry services were \$10.1 million for each of the three months ended March 31, 2022 and 2021, respectively.

Gross Profit

Total gross profit was \$39.0 million for the three months ended March 31, 2022 compared to \$34.4 million for the three months ended March 31, 2021, a \$4.6 million, or 13.4%, increase. Gross profit as a percentage of net sales for the three months ended March 31, 2022 increased to 37.5% compared to 27.9% for the three months ended March 31, 2021. The increase in gross profit and gross profit as a percentage of net sales was primarily due to our standard products business as further described below.

The standard products business. Gross profit from our standard products business was \$37.9 million for the three months ended March 31, 2022, which represented a \$4.3 million, or 12.7%, increase from gross profit of \$33.7 million for the three months ended March 31, 2021. Gross profit as a percentage of net sales for the three months ended March 31, 2022 increased to 40.3% compared to 29.8% for the three months ended March 31, 2021. The increase in both gross profit and gross profit margin was primarily attributable to an improved product mix and an increase in average selling price benefited from the favorable pricing environment.

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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 March 31, 2022 and 2021:

	Three Months Ended March 31, 2022		Three Months Ended March 31, 2021		Change Amount
	Amount	% of Net Sales – standard products business	Amount	% of Net Sales – standard products business	
	(Dollars in millions)				
Korea	\$ 31.0	33.0%	\$ 26.4	23.4%	\$ 4.6
Asia Pacific (other than Korea)	58.3	62.0	83.7	74.2	(25.5)
United States	2.9	3.0	1.3	1.1	1.6
Europe	1.9	2.0	1.2	1.1	0.6
Others	—	—	0.2	0.2	(0.2)
	<u>\$ 94.0</u>	<u>100.0%</u>	<u>\$ 112.9</u>	<u>100.0%</u>	<u>\$ (18.9)</u>

Net sales – standard products business in Korea for the three months ended March 31, 2022 increased from \$26.4 million to \$31.0 million compared to the three months ended March 31, 2021, or by \$4.6 million, or 17.4%, primarily due to a strong demand for power products such as MOSFETs, including high-end MOSFETs, primarily for TVs and smartphone applications. The increased demand for OLED TV DDIC also favorably affected in this quarter.

Net sales – standard products business in Asia Pacific (other than Korea) for the three months ended March 31, 2022 decreased to \$58.3 million from \$83.7 million in the three months ended March 31, 2021, or by \$25.5 million, or 30.4%, primarily due to a decrease in revenue from our mobile OLED display driver ICs stemming from a continuing severe shortage in manufacturing capacity (in particular for 28nm 12-inch OLED wafers), as we outsource manufacturing of these products to external 12-inch foundries, and lower customer demand resulting from a slowdown in the Chinese smartphone market in the first quarter of 2022, which was offset in part by a higher demand for power products such as MOSFETs, including high-end MOSFETs, primarily for TVs, computing and industrial applications, and IGBTs mainly for solar inverters. The increased demand for our auto-LCD DDIC also favorably affected in this quarter.

Operating Expenses

Selling, General and Administrative Expenses. Selling, general and administrative expenses were \$14.2 million, or 13.6% of total revenues, for the three months ended March 31, 2022, compared to \$12.6 million, or 10.3% of total revenues, for the three months ended March 31, 2021. The increase of \$1.5 million, or 12.1%, was primarily attributable to an increase in employee compensation including certain incentive and benefit related accruals.

Research and Development Expenses. Research and development expenses were \$12.0 million, or 11.5% of total revenues, for the three months ended March 31, 2022, compared to \$13.4 million, or 10.9% of total revenues, for the three months ended March 31, 2021. The decrease of \$1.5 million, or 10.9%, was primarily attributable to the timing of development activities for our 28-nanometer OLED display driver ICs, which was offset in part by an increase in employee compensation.

Merger-related Costs. For the three months ended March 31, 2021, we recorded \$9.8 million of non-recurring professional service fees and expenses incurred in connection with the contemplated Merger transaction.

Other Charges. For the three months ended March 31, 2021, we recorded \$0.6 million of non-recurring professional service fees and expenses incurred in connection with the regulatory requests.

Operating Income (Loss)

As a result of the foregoing, operating income of \$12.9 million was recorded for the three months ended March 31, 2022 compared to operating loss of \$2.1 million for the three months ended March 31, 2021. As discussed above, the increase in operating income of \$15.0 million resulted primarily from a \$9.8 million decrease in Merger-related costs, a \$4.6 million increase in gross profit, a \$1.5 million decrease in research and development expenses and a \$0.6 million decrease in other charges. This increase was offset in part by a \$1.5 million increase in selling, general and administrative expenses.

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Other Income (Expense)

Interest Expense. Interest expenses were \$0.1 million and \$1.0 million for the three months ended March 31, 2022 and March 31, 2021, respectively.

Foreign Currency Loss, Net. Net foreign currency loss for the three months ended March 31, 2022 was \$0.7 million compared to net foreign currency loss of \$4.7 million for the three months ended March 31, 2021. The net foreign currency loss for the three months ended March 31, 2022 and March 31, 2021 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 March 31, 2022 and March 31, 2021, the outstanding intercompany loan balances, including accrued interest between our Korean subsidiary and our Dutch subsidiary, were \$348 million and \$382 million, respectively. Foreign currency translation gain or loss from intercompany balances were included in determining our consolidated net income (loss) 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 interest income, rental income, and gains and losses from valuation of derivatives which were designated as hedging instruments. Others for the three months ended March 31, 2022 and March 31, 2021 was \$0.9 million and \$0.6 million, respectively.

Income Tax Expense

Income tax expense was \$3.5 million for the three months ended March 31, 2022, which was primarily attributable to the estimated taxable income in our Korean subsidiary for the respective period. Income tax expense was \$0.3 million for the three months ended March 31, 2021, which was primarily attributable to interest on intercompany loan balances, and offset in part by the tax benefit recognized on the loss for the first quarter of 2021 from our Korean subsidiary.

Net Income (Loss)

As a result of the foregoing, a net income of \$9.5 million was recorded for the three months ended March 31, 2022 compared to a net loss of \$7.5 million for the three months ended March 31, 2021. As discussed above, the \$17.0 million increase in net income was primarily attributable to a \$15.0 million increase in operating income, a \$4.0 million improvement in net foreign currency loss and a \$0.9 million decrease in interest expense, which was offset in part by a \$3.2 million increase in income tax expense.

Liquidity and Capital Resources

Our principal capital requirements are to fund sales and marketing, invest in research and development and capital equipment, 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. In addition, from time to time, we may make payments to our vendors on extended terms with their consent. As of March 31, 2022, we did not have any accounts payable on extended terms or payment deferral with our vendors.

As of June 29, 2018, our Korean subsidiary entered into an arrangement whereby it (i) acquired a water treatment facility from SK hynix for \$4.2 million to support our fabrication facility in Gumi, Korea, and (ii) subsequently sold the water treatment facility for \$4.2 million to a third party management company that we engaged to run the facility for a 10-year term beginning July 1, 2018. As of March 31, 2022, the outstanding obligation of this arrangement is approximately \$22.5 million for remaining service term through 2028.

As of March 31, 2022, cash and cash equivalents held by our Korean subsidiary were \$279.4 million, which represents 98% of our total cash and cash equivalents on a consolidated basis. 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 12 months and the foreseeable future.

Working Capital

Our working capital balance as of March 31, 2022 was \$337.2 million compared to \$323.6 million as of December 31, 2021. The \$13.6 million increase was primarily attributable to a \$5.4 million increase in cash and cash equivalents and a \$6.6 million increase in advance payments to certain suppliers, including external foundries to meet our planned production.

Cash Flows from Operating Activities

Cash inflow provided by operating activities totaled \$12.8 million for the three months ended March 31, 2022, compared to \$21.2 million of cash inflow provided by operating activities for the three months ended March 31, 2021. The net operating cash inflow for the three months ended March 31, 2022 reflects our net income of \$9.5 million, as adjusted favorably by \$13.9 million, which mainly consisted of depreciation and amortization, provision for severance benefits, and net foreign currency loss, and net unfavorable impact of \$10.6 million from changes of operating assets and liabilities.

Cash Flows from Investing Activities

Cash outflow used in investing activities totaled \$2.1 million for the three months ended March 31, 2022, compared to \$1.4 million of cash outflow used in investing activities for the three months ended March 31, 2021. The \$0.8 million increase was primarily attributable to a \$1.1 million net increase in hedge collateral, which was offset in part by a \$0.1 million decrease in purchase of property, plant and equipment.

Cash Flows from Financing Activities

Cash inflow provided by financing activities totaled \$0.8 million for the three months ended March 31, 2022, compared to \$0.8 million of cash inflow provided by financing activities for the three months ended March 31, 2021. The financing cash inflow for the three months ended March 31, 2022 was primarily attributable to \$1.8 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 \$0.8 million for the repurchase of our common stock to satisfy tax withholding obligations in connection with the vesting of restricted stock units. The financing cash inflow for the three months ended March 31, 2021 was primarily attributable to \$2.5 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 \$1.5 million for the repurchase of our common stock to satisfy tax withholding obligations in connection with the vesting of restricted stock units.

Capital Expenditures

We routinely make capital expenditures for fabrication facility maintenance, enhancement of our existing facility and reinforcement of our global research and development capability. For the three months ended March 31, 2022, capital expenditures for property, plant and equipment were \$0.9 million, a \$0.1 million, or 12.8%, decrease from \$1.1 million for the three months ended March 31, 2021. The capital expenditures for the three months ended March 31, 2022 and 2021 were related to meeting our customer demand and supporting technology and facility improvement at our fabrication facility.

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, 2021, or our 2021 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 judgement appears in our 2021 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 other material changes to our critical accounting policies and estimates as compared to our critical accounting policies and estimates included in our 2021 Form 10-K.

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. In the normal course of our business, we are subject to market risks associated with 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 March 31, 2022 for our Korean subsidiary, a 10% devaluation of the Korean won against the U.S. dollar would have resulted in a decrease of \$3.1 million in our U.S. dollar financial instruments and cash balances.

See “Note 7. 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.

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 March 31, 2022, 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 March 31, 2022.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended March 31, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION**Item 1. Legal Proceedings**

For a discussion of legal proceedings, see “Part I: Item 3. Legal Proceedings” of our 2021 Form 10-K.

See also “Item 1A. Risk Factors” in this Report and “Part I: Item 1A. Risk Factors” of our 2021 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 2021 Form 10-K (including that the impact of the COVID-19 pandemic, such as the ongoing lockdowns in Shanghai, China, may also exacerbate the risks discussed therein), herein and other reports we have filed with the SEC. In addition, the recent geopolitical conflict between Russia and Ukraine, and any sanctions, export controls or other retaliatory actions against, or restrictions on doing business with Russia, as well as any disruption, instability or volatility in the global markets, industries and supply chains resulting from such conflict, could adversely affect our business, even though at present we are not experiencing or expecting any notable negative effect on our financial condition or results of operations. 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.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The following table shows the monthly activity related to our repurchases of common stock for the quarter ended March 31, 2022.

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1)</u>	<u>Approximate dollar value of Shares that may yet be Purchased under the Plans or Programs (in thousands)(1)</u>
January 2022	—	—	—	—
February 2022	—	—	—	—
March 2022	1,031,576	\$ 16.69	1,031,576	\$ 37,500
Total	<u>1,031,576</u>	<u>—</u>	<u>1,031,576</u>	<u>\$ 37,500</u>

- (1) On December 21, 2021, the Company’s Board of Directors authorized the Company to repurchase up to \$75 million of the Company’s common stock. As an immediate step towards implementing the approved stock repurchase program, the Company entered into an ASR Agreement on December 21, 2021 with JPM to repurchase an aggregate of \$37.5 million of the Company’s common stock. Pursuant to the terms of the ASR Agreement dated December 21, 2021, we paid to JPM \$37.5 million in cash and received an initial delivery of 994,695 shares of our common stock in the open market. In March 2022, the previously announced repurchase of \$37.5 million of our common stock was completed pursuant to the ASR Agreement, and as a result, we additionally received 1,031,576 shares of our common stock.

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Item 6. Exhibits.

<u>Exhibit Number</u>	<u>Description</u>
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 Chief 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 [#]	Inline XBRL Instance Document.
101.SCH [#]	Inline XBRL Taxonomy Extension Schema Document.
101.CAL [#]	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF [#]	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB [#]	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE [#]	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

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: May 6, 2022

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

Dated: May 6, 2022

By: /s/ Shin Young Park
Shin Young Park
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

**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: May 6, 2022

/s/ Young-Joon Kim

Young-Joon Kim

Chief Executive Officer

(Principal Executive Officer)

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

I, Shin Young Park, 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: May 6, 2022

/s/ Shin Young Park

Shin Young Park

Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

**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 March 31, 2022 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: May 6, 2022

/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.

**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 March 31, 2022 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: May 6, 2022

/s/ Shin Young Park

Shin Young Park

Chief Financial Officer

(Principal Financial Officer and Principal Accounting 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.