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

FORM 10-Q

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

For the quarterly period ended September 30, 2023

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, Ltd.
15F, 76 Jikji-daero 436beon-gil, Heungdeok-gu
Cheongju-si, Chungcheongbuk-do, Republic of Korea 28581
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: +82 (2) 6903-3000

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ☒ Yes ☐ No

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

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

Emerging growth company ☐

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

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

As of October 31, 2023, the registrant had 38,763,018 shares of common stock outstanding.

MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
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PART I—FINANCIAL INFORMATION

Item 1. Interim Consolidated Financial Statements (Unaudited)

MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (Unaudited)

	September 30, 2023	December 31, 2022
	(In thousands of U.S. dollars, except share data)	
Assets		
Current assets		
Cash and cash equivalents	$ 166,644	$ 225,477
Accounts receivable, net	41,119	35,380
Inventories, net	30,836	39,883
Other receivables	2,799	7,847
Prepaid expenses	9,095	10,560
Hedge collateral (Note 6)	2,680	2,940
Other current assets (Note 16)	24,572	15,766
Total current assets	277,745	337,853
Property, plant and equipment, net	96,141	110,747
Operating lease right-of-use assets	4,725	5,265
Intangible assets, net	1,583	1,930
Long-term prepaid expenses	6,124	10,939
Deferred income taxes	36,358	38,324
Other non-current assets	11,622	11,587
Total assets	$ 434,298	$ 516,645
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 23,446	$ 17,998
Other accounts payable	8,025	9,702
Accrued expenses	9,668	9,688
Accrued income taxes	48	3,154
Operating lease liabilities	1,735	1,397
Other current liabilities	4,495	5,306
Total current liabilities	47,417	47,245
Accrued severance benefits, net	20,160	23,121
Non-current operating lease liabilities	3,167	4,091
Other non-current liabilities	9,862	14,035
Total liabilities	80,606	88,492
Commitments and contingencies (Note 16)		
Stockholders' equity		
Common stock, $0.01 par value, 150,000,000 shares authorized, 56,655,377 shares issued and 39,667,995 outstanding at September 30, 2023 and 56,432,449 shares issued and 43,824,575 outstanding at December 31, 2022	566	564
Additional paid-in capital	271,419	266,058
Retained earnings	304,924	335,506
Treasury stock, 16,987,382 shares at September 30, 2023 and 12,607,874 shares at December 31, 2022, respectively	(204,645)	(161,422)
Accumulated other comprehensive loss	(18,572)	(12,553)
Total stockholders' equity	353,692	428,153
Total liabilities and stockholders' equity	$ 434,298	$ 516,645

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

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

	Three Months Ended		Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
	(In thousands of U.S. dollars, except share data)			
Revenues:				
Net sales – standard products business	$ 51,619	$ 62,771	$ 154,508	$ 248,069
Net sales – transitional Fab 3 foundry services	9,626	8,428	24,721	28,599
Total revenues	61,245	71,199	179,229	276,668
Cost of sales:				
Cost of sales – standard products business	36,829	45,497	112,008	165,197
Cost of sales – transitional Fab 3 foundry services	9,935	8,477	27,108	26,305
Total cost of sales	46,764	53,974	139,116	191,502
Gross profit	14,481	17,225	40,113	85,166
Operating expenses:				
Selling, general and administrative expenses	12,089	11,411	36,391	38,310
Research and development expenses	11,627	13,321	36,180	38,685
Early termination and other charges, net	—	2,501	9,251	3,298
Total operating expenses	23,716	27,233	81,822	80,293
Operating income (loss)	(9,235)	(10,008)	(41,709)	4,873
Interest income	2,382	1,784	7,916	3,560
Interest expense	(189)	(278)	(645)	(888)
Foreign currency loss, net	(2,583)	(12,809)	(4,776)	(20,511)
Other income, net	87	174	55	603
Loss before income tax expense	(9,538)	(21,137)	(39,159)	(12,363)
Income tax benefit	(4,373)	(3,942)	(8,577)	(1,356)
Net loss	$ (5,165)	$ (17,195)	$ (30,582)	$ (11,007)
Basic loss per common share—	$ (0.13)	$ (0.38)	$ (0.73)	$ (0.24)
Diluted loss per common share—	$ (0.13)	$ (0.38)	$ (0.73)	$ (0.24)
Weighted average number of shares—				
Basic	40,145,290	44,865,266	41,747,255	45,119,214
Diluted	40,145,290	44,865,266	41,747,255	45,119,214

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

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

	Three Months Ended		Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
	(In thousands of U.S. dollars)			
Net loss	$ (5,165)	$ (17,195)	$ (30,582)	$ (11,007)
Other comprehensive loss				
Foreign currency translation adjustments	(1,847)	(5,974)	(6,040)	(15,881)
Derivative adjustments				
Fair valuation of derivatives	(1,013)	(11,757)	(2,523)	(19,498)
Reclassification adjustment for loss on derivatives included in net loss	698	2,820	2,544	5,378
Total other comprehensive loss	(2,162)	(14,911)	(6,019)	(30,001)
Total comprehensive loss	$ (7,327)	$ (32,106)	$ (36,601)	$ (41,008)

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

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

(In thousands of U.S. dollars, except share data)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Three Months Ended September 30, 2023:							
Balance at June 30, 2023	40,133,898	$ 564	$269,297	$310,089	$(199,248)	$ (16,410)	$364,292
Stock-based compensation	—	—	2,171	—	—	—	2,171
Settlement of restricted stock units	205,595	2	(49)	—	—	—	(47)
Acquisition of treasury stock	(671,498)	—	—	—	(5,397)	—	(5,397)
Other comprehensive loss, net	—	—	—	—	—	(2,162)	(2,162)
Net loss	—	—	—	(5,165)	—	—	(5,165)
Balance at September 30, 2023	39,667,995	$ 566	$271,419	$304,924	$(204,645)	$ (18,572)	$353,692
Three Months Ended September 30, 2022:							
Balance at June 30, 2022	44,903,718	$ 562	$263,698	$349,730	$(148,523)	$ (17,320)	$448,147
Stock-based compensation	—	—	861	—	—	—	861
Settlement of restricted stock units	—	—	(49)	—	—	—	(49)
Acquisition of treasury stock	(324,643)	—	—	—	(3,638)	—	(3,638)
Other comprehensive loss, net	—	—	—	—	—	(14,911)	(14,911)
Net loss	—	—	—	(17,195)	—	—	(17,195)
Balance at September 30, 2022	44,579,075	$ 562	$264,510	$332,535	$(152,161)	$ (32,231)	$413,215

(In thousands of U.S. dollars, except share data)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Nine Months Ended September 30, 2023:							
Balance at December 31, 2022	43,824,575	$ 564	$266,058	$335,506	$(161,422)	$ (12,553)	$428,153
Stock-based compensation	—	—	5,383	—	—	—	5,383
Exercise of stock options	4,000	0	27	—	—	—	27
Settlement of restricted stock units	218,928	2	(49)	—	—	—	(47)
Acquisition of treasury stock	(4,379,508)	—	—	—	(43,223)	—	(43,223)
Other comprehensive loss, net	—	—	—	—	—	(6,019)	(6,019)
Net loss	—	—	—	(30,582)	—	—	(30,582)
Balance at September 30, 2023	39,667,995	$ 566	$271,419	$304,924	$(204,645)	$ (18,572)	$353,692
Nine Months Ended September 30, 2022:							
Balance at December 31, 2021	45,659,304	$ 559	$241,197	$343,542	$(130,306)	$ (2,230)	$452,762
Stock-based compensation	—	—	4,487	—	—	—	4,487
Exercise of stock options	152,326	1	1,785	—	—	—	1,786
Settlement of restricted stock units	177,128	2	(176)	—	—	—	(174)
Acquisition of treasury stock	(378,107)	—	—	—	(4,638)	—	(4,638)
Accelerated stock repurchase	(1,031,576)	—	17,217	—	(17,217)	—	—
Other comprehensive loss, net	—	—	—	—	—	(30,001)	(30,001)
Net loss	—	—	—	(11,007)	—	—	(11,007)
Balance at September 30, 2022	44,579,075	$ 562	$264,510	$332,535	$(152,161)	$ (32,231)	$413,215

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

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

	Nine Months Ended	
	September 30, 2023	September 30, 2022
	(In thousands of U.S. dollars)	
Cash flows from operating activities		
Net loss	$ (30,582)	$ (11,007)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities		
Depreciation and amortization	12,583	11,225
Provision for severance benefits	5,358	5,163
Loss on foreign currency, net	14,532	66,335
Provision for inventory reserves	3,035	7,730
Stock-based compensation	5,383	4,487
Other, net	680	631
Changes in operating assets and liabilities		
Accounts receivable, net	(6,409)	7,805
Inventories	3,635	(13,208)
Other receivables	4,993	17,115
Other current assets	(2,291)	(14,117)
Accounts payable	6,066	(14,792)
Other accounts payable	(6,738)	(6,215)
Accrued expenses	619	5,866
Accrued income taxes	(3,014)	(11,483)
Other current liabilities	(741)	(1,583)
Other non-current liabilities	(279)	523
Payment of severance benefits	(6,183)	(4,181)
Other, net	(841)	(50)
Net cash provided by (used in) operating activities	(194)	50,244
Cash flows from investing activities		
Proceeds from settlement of hedge collateral	3,335	2,805
Payment of hedge collateral	(3,154)	(15,282)
Purchase of property, plant and equipment	(2,280)	(11,812)
Payment for intellectual property registration	(230)	(301)
Collection of guarantee deposits	4,984	242
Payment of guarantee deposits	(7,276)	(2,075)
Other	—	550
Net cash used in investing activities	(4,621)	(25,873)
Cash flows from financing activities		
Proceeds from exercise of stock options	27	1,786
Acquisition of treasury stock	(43,087)	(5,065)
Repayment of financing related to water treatment facility arrangement	(371)	(381)
Repayment of principal portion of finance lease liabilities	(69)	(50)
Net cash used in financing activities	(43,500)	(3,710)
Effect of exchange rates on cash and cash equivalents	(10,518)	(49,377)
Net decrease in cash and cash equivalents	(58,833)	(28,716)
Cash and cash equivalents		
Cash and cash equivalents at beginning of period	225,477	279,547
Cash and cash equivalents at end of period	$ 166,644	$ 250,831
Supplemental cash flow information		
Cash paid for income taxes	$ 4,000	$ 17,856
Non-cash investing activities		
Property, plant and equipment additions in other accounts payable	$ 1,029	$ 3,957
Non-cash financing activities		
Unsettled common stock repurchases	$ 494	$ 399

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 a wide range of applications including smartphones, TVs, automotive and IT applications such as monitors, notebook PCs, tablet PCs as well as AR/VRs. 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", to Key Foundry Co., Ltd., a Korean corporation ("Key Foundry"). Following the consummation of the sale, the Company provided Key Foundry with 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"). The contractual obligation to provide the Transitional Fab 3 Foundry Services ended August 31, 2023, and the Company is planning to wind down these foundry services and convert portions of the idle capacity to Power Solutions standard products beginning around the second half of 2024. Because these foundry services during the wind-down period are still provided to Key Foundry by the Company using its Fab 3 based on mutually agreed terms and conditions, the Company will continue to report its revenue from providing these foundry services and related cost of sales within the Transitional Fab 3 Foundry Services line in its consolidated statement of operations until such wind down is completed.

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. The results of operations for the three and nine months ended September 30, 2023 are not necessarily indicative of the results to be expected for a full year or for any other periods.

The December 31, 2022 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, 2022.

There have been no material changes to the Company's significant accounting policies as of and for the nine months ended September 30, 2023 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, 2022.

2. Inventories

Inventories as of September 30, 2023 and December 31, 2022 consist of the following (in thousands):

	September 30, 2023	December 31, 2022
Finished goods	$ 5,555	$ 6,799
Semi-finished goods and work-in-process	35,684	40,265
Raw materials	5,666	7,460
Materials in-transit	10	36
Less: inventory reserve	(16,079)	(14,677)
Inventories, net	$ 30,836	$ 39,883

Changes in inventory reserve for the three and nine months ended September 30, 2023 and 2022 are as follows (in thousands):

	Three Months Ended	Nine Months Ended	Three Months Ended	Nine Months Ended
	September 30, 2023		September 30, 2022	
Beginning balance	$ (14,745)	$ (14,677)	$ (10,206)	$ (5,730)
Change in reserve				
Inventory reserve charged to costs of sales	(2,759)	(7,366)	(3,199)	(10,899)
Sale of previously reserved inventory	845	4,368	672	2,996
	(1,914)	(2,998)	(2,527)	(7,903)
Write off	187	669	16	311
Translation adjustments	393	927	1,179	1,784
Ending balance	$ (16,079)	$ (16,079)	$ (11,538)	$ (11,538)

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.

3. Property, Plant and Equipment

Property, plant and equipment as of September 30, 2023 and December 31, 2022 are comprised of the following (in thousands):

	September 30, 2023	December 31, 2022
Buildings and related structures	$ 23,501	$ 24,780
Machinery and equipment	131,892	137,666
Finance lease right-of-use assets	685	389
Others	33,292	33,890
	189,370	196,725
Less: accumulated depreciation	(107,235)	(101,502)
Land	12,283	13,034
Construction in progress	1,723	2,490
Property, plant and equipment, net	$ 96,141	$ 110,747

Aggregate depreciation expenses totaled $12,111 thousand and $10,699 thousand for the nine months ended September 30, 2023 and 2022, respectively.

4. Intangible Assets

Intangible assets as of September 30, 2023 and December 31, 2022 are comprised of the following (in thousands):

	September 30, 2023		
	Gross amount	Accumulated amortization	Net amount
Intellectual property assets	$8,786	$ (7,203)	$1,583
Intangible assets	$8,786	$ (7,203)	$1,583

	December 31, 2022		
	Gross amount	Accumulated amortization	Net amount
Intellectual property assets	$9,111	$ (7,181)	$1,930
Intangible assets	$9,111	$ (7,181)	$1,930

Aggregate amortization expenses for intangible assets totaled $472 thousand and $526 thousand for the nine months ended September 30, 2023 and 2022, respectively.

5. Accrued Expenses

Accrued expenses as of September 30, 2023 and December 31, 2022 are comprised of the following (in thousands):

	September 30, 2023	December 31, 2022
Payroll, benefits and related taxes, excluding severance benefits	$ 6,263	$ 7,620
Withholding tax attributable to intercompany interest income	1,287	43
Outside service fees	1,308	1,642
Others	810	383
Accrued expenses	$ 9,668	$ 9,688

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6. 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 September 30, 2023 are as follows (in thousands):

Date of transaction	Total notional amount	Month of settlement
March 07, 2022	$ 12,000	October 2023 to December 2023
April 27, 2022	$ 12,000	October 2023 to December 2023
March 08, 2023	$ 9,000	October 2023 to December 2023
April 03, 2023	$ 23,000	December 2023 to June 2024
August 09, 2023	$ 27,000	January 2024 to September 2024

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

Date of transaction	Total notional amount	Month of settlement
January 04, 2022	$ 30,000	January 2023 to June 2023
March 07, 2022	$ 24,000	July 2023 to December 2023
April 27, 2022	$ 42,000	January 2023 to December 2023

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 liabilities as of September 30, 2023 and December 31, 2022 are as follows (in thousands):

Derivatives designated as hedging instruments:		September 30, 2023	December 31, 2022
Liability Derivatives:			
Zero cost collars	Other current liabilities	$ 2,104	$ 2,015

Offsetting of derivative liabilities as of September 30, 2023 is as follows (in thousands):

As of September 30, 2023	Gross amounts of recognized liabilities	Gross amounts offset in the balance sheets	Net amounts of liabilities presented in the balance sheets	Gross amounts not offset in the balance sheets: Financial instruments	Gross amounts not offset in the balance sheets: Cash collateral pledged	Net amount
Liability Derivatives:						
Zero cost collars	$ 2,104	$ —	$ 2,104	$ —	$ (1,680)	$ 424

Offsetting of derivative liabilities as of December 31, 2022 is as follows (in thousands):

As of December 31, 2022	Gross amounts of recognized liabilities	Gross amounts offset in the balance sheets	Net amounts of liabilities presented in the balance sheets	Gross amounts not offset in the balance sheets: Financial instruments	Gross amounts not offset in the balance sheets: Cash collateral pledged	Net amount
Liability Derivatives:						
Zero cost collars	$ 2,015	$ —	$ 2,015	$ —	$ (1,940)	$ 75

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 or loss ("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 September 30, 2023 and 2022 (in thousands):

Derivatives in ASC 815 Cash Flow Hedging Relationships	Amount of Loss Recognized in AOCI on Derivatives		Location/Amount of Loss Reclassified from AOCI Into Statement of Operations			Location/Amount of Gain (Loss) Recognized in Statement of Operations on Derivatives		
	Three Months Ended September 30,			Three Months Ended September 30,			Three Months Ended September 30,	
	2023	2022		2023	2022		2023	2022
Zero cost collars	$(1,013)	$(11,757)	Net sales	$ (698)	$ (2,820)	Other income, net	$ (161)	$ 146
	$(1,013)	$(11,757)		$ (698)	$ (2,820)		$ (161)	$ 146

The following table summarizes the impact of derivative instruments on the consolidated statements of operations for the nine months ended September 30, 2023 and 2022 (in thousands):

Derivatives in ASC 815 Cash Flow Hedging Relationships	Amount of Loss Recognized in AOCI on Derivatives		Location/Amount of Loss Reclassified from AOCI Into Statement of Operations			Location/Amount of Gain (Loss) Recognized in Statement of Operations on Derivatives		
	Nine Months Ended September 30,			Nine Months Ended September 30,			Nine Months Ended September 30,	
	2023	2022		2023	2022		2023	2022
Zero cost collars	$(2,523)	$(19,498)	Net sales	$(2,544)	$(5,378)	Other income, net	$ (235)	$ 201
	$(2,523)	$(19,498)		$(2,544)	$(5,378)		$ (235)	$ 201

As of September 30, 2023, the amount expected to be reclassified from accumulated other comprehensive loss into loss within the next 12 months is $1,204 thousand.

The Company set aside cash deposit to the counterparty, Standard Chartered Bank Korea Limited ("SC"), as required for the zero cost collar contracts. This cash deposit is recorded as hedge collateral on the consolidated balance sheets. Cash deposits as of September 30, 2023 and December 31, 2022 are as follows (in thousands):

Counterparty	September 30, 2023	December 31, 2022
SC	$ 1,000	$ 1,000
Total	$ 1,000	$ 1,000

The Company is required to deposit additional cash collateral with Nomura Financial Investment (Korea) Co., Ltd. ("NFIK") and SC for any exposure in excess of $500 thousand. As of September 30, 2023, $1,680 thousand of additional cash collateral was required by NFIK, and recorded as hedge collateral on the consolidated balance sheet. As of December 31, 2022, $1,840 thousand and $100 thousand of additional cash collateral were 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.

7. Fair Value Measurements

Fair Value of Financial Instruments

As of September 30, 2023, the following table represents the Company's liabilities measured at fair value on a recurring basis and the basis for that measurement (in thousands):

	Carrying Value September 30, 2023	Fair Value Measurement September 30, 2023	Quoted Prices in Active Markets for Identical Liability (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities:					
Derivative liabilities (other current liabilities)	$ 2,104	$ 2,104	—	$ 2,104	—

As of December 31, 2022, the following table represents the Company's liabilities measured at fair value on a recurring basis and the basis for that measurement (in thousands):

	Carrying Value December 31, 2022	Fair Value Measurement December 31, 2022	Quoted Prices in Active Markets for Identical Liability (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Liabilities:					
Derivative liabilities (other current liabilities)	$ 2,015	$ 2,015	—	$ 2,015	—

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.

8. Accrued Severance Benefits

The majority of accrued severance benefits are for employees in the Company's Korean subsidiary. Pursuant to the Employee Retirement Benefit Security Act of Korea, eligible employees and executive officers with one or more years of service are entitled to severance benefits upon the termination of their employment based on their length of service and rate of pay. As of September 30, 2023, 97% of all employees of the Company were eligible for severance benefits.

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

	Three Months Ended September 30, 2023	Nine Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2022
Beginning balance	$ 45,121	$ 48,496	$ 47,586	$ 51,567
Provisions	1,267	5,358	1,923	5,163
Severance payments	(455)	(6,183)	(1,247)	(4,181)
Translation adjustments	(1,092)	(2,830)	(4,730)	(9,017)
	44,841	44,841	43,532	43,532
Less: Cumulative contributions to severance insurance deposit accounts	(24,503)	(24,503)	(15,292)	(15,292)
The National Pension Fund	(29)	(29)	(40)	(40)
Group severance insurance plan	(149)	(149)	(164)	(164)
Accrued severance benefits, net	$ 20,160	$ 20,160	$ 28,036	$ 28,036

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 pursuant to Employee Retirement Benefit Security Act of Korea. 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 2023	$ 163
2024	$ 310
2025	$ 577
2026	$ 647
2027	$ 362
2028	$ 3,352
2029 – 2033	$ 17,648

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 years of age or older under the Employment Promotion for the Aged Act. The Company sets the retirement age of employees at 60.

9. Early Termination and Other Charges

During the first quarter of 2023, the Company commenced the voluntary resignation program (the “2023 Voluntary Resignation Program”), which was available for the employees with more than 20 years of service. For the nine months ended September 30, 2023, the Company recorded in its consolidated statement of operations $8,449 thousand of termination related charges as “early termination and other charges”, which were paid during the second quarter of 2023.

For the nine months ended September 30, 2023, the Company also recorded $802 thousand of one-time employee incentives, which were paid during the third quarter of 2023.

For the three and nine months ended September 30, 2022, the Company recorded $2,821 thousand of one-time employee incentives, in each period, and professional service fees and expenses of $217 thousand and $1,014 thousand, respectively, incurred in connection with certain strategic evaluations, both of which were offset in part by a $537 thousand gain on sale of certain legacy equipment of the closed back-end line in our fabrication facility in Gumi.

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 September 30, 2023 and December 31, 2022, the outstanding intercompany loan balances including accrued interest between the Korean subsidiary and the Dutch subsidiary were $281,685 thousand and $310,988 thousand, respectively. The Korean won to U.S. dollar exchange rates were 1,344.8:1 and 1,267.3:1 using the first base rate as of September 30, 2023 and December 31, 2022, 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 and nine months ended September 30, 2023, the Company recorded an income tax benefit of $4,373 thousand and $8,577 thousand, respectively, primarily related to its primary operating entity in Korea based on the estimated taxable loss for the respective period.

For the three and nine months ended September 30, 2022, the Company recorded an income tax benefit of $3,942 thousand and $1,356 thousand, respectively, primarily attributable to a decrease in its Korean subsidiary’s pre-tax income for the respective period due to the foreign currency translation loss recorded in its Korean subsidiary in connection with intercompany loans.

12. Geographic and Other Information

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

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Revenues				
Standard products business				
Display Solutions	$ 6,404	$ 6,355	$ 26,902	$ 63,876
Power Solutions	45,215	56,416	127,606	184,193
Total standard products business	51,619	62,771	154,508	248,069
Transitional Fab 3 foundry services	9,626	8,428	24,721	28,599
Total revenues	$ 61,245	$ 71,199	$ 179,229	$ 276,668

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Gross Profit				
Standard products business	$ 14,790	$ 17,274	$ 42,500	$ 82,872
Transitional Fab 3 foundry services	(309)	(49)	(2,387)	2,294
Total gross profit	$ 14,481	$ 17,225	$ 40,113	$ 85,166

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 September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Korea	$ 19,249	$ 23,867	$ 50,139	$ 86,065
Asia Pacific (other than Korea)	29,859	34,612	96,784	148,940
United States	1,214	2,718	2,495	8,074
Europe	1,297	1,574	5,090	4,990
Total	$ 51,619	$ 62,771	$ 154,508	$ 248,069

For the three months ended September 30, 2023 and 2022, 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 73.3% and 74.2%, respectively. For the nine months ended September 30, 2023 and 2022, 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 represented 66.1% and 66.4%, 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 74% and 64% for the three months ended September 30, 2023 and 2022, respectively, and 70% for the nine months ended September 30, 2023 and 2022, in each period.

For the three months ended September 30, 2023, the Company had one customer that represented 18.8% of its net sales—standard products business. For the nine months ended September 30, 2023, the Company had two customers that represented 15.9% and 13.3% of its net sales—standard products business, respectively. For the three months ended September 30, 2022, the Company had one customer that represented 16.2% of its net sales – standard products business. For the nine months ended September 30, 2022, the Company had two customers that represented 20.6% and 13.9% of its net sales – standard products business.

As of September 30, 2023, two customers of the Company's standard products business accounted for 30.6% and 10.4% of its accounts receivable –standard products business (which does not include the Transitional Fab 3 Foundry Services), respectively. As of December 31, 2022, two customers of the Company's standard products business accounted for 25.1% and 15.2% of its accounts receivable – standard products business (which does not include the Transitional Fab 3 Foundry Services), respectively.

13. Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss consists of the following as of September 30, 2023 and December 31, 2022, respectively (in thousands):

	September 30, 2023	December 31, 2022
Foreign currency translation adjustments	$ (17,368)	$ (11,328)
Derivative adjustments	(1,204)	(1,225)
Total	$ (18,572)	$ (12,553)

Changes in accumulated other comprehensive loss for the three months ended September 30, 2023 and 2022 are as follows (in thousands):

Three Months Ended September 30, 2023	Foreign currency translation adjustments	Derivative adjustments	Total
Beginning balance	$ (15,521)	$ (889)	$(16,410)
Other comprehensive loss before reclassifications	(1,847)	(1,013)	(2,860)
Amounts reclassified from accumulated other comprehensive loss	—	698	698
Net current-period other comprehensive loss	(1,847)	(315)	(2,162)
Ending balance	$ (17,368)	$ (1,204)	$(18,572)

Three Months Ended September 30, 2022	Foreign currency translation adjustments	Derivative adjustments	Total
Beginning balance	$ (10,677)	$ (6,643)	$(17,320)
Other comprehensive loss before reclassifications	(5,974)	(11,757)	(17,731)
Amounts reclassified from accumulated other comprehensive loss	—	2,820	2,820
Net current-period other comprehensive loss	(5,974)	(8,937)	(14,911)
Ending balance	$ (16,651)	$ (15,580)	$(32,231)

Changes in accumulated other comprehensive loss for the nine months ended September 30, 2023 and 2022 are as follows (in thousands):

Nine Months Ended September 30, 2023	Foreign currency translation adjustments	Derivative adjustments	Total
Beginning balance	$ (11,328)	$ (1,225)	$(12,553)
Other comprehensive loss before reclassifications	(6,040)	(2,523)	(8,563)
Amounts reclassified from accumulated other comprehensive loss	—	2,544	2,544
Net current-period other comprehensive loss	(6,040)	21	(6,019)
Ending balance	$ (17,368)	$ (1,204)	$(18,572)

Nine Months Ended September 30, 2022	Foreign currency translation adjustments	Derivative adjustments	Total
Beginning balance	$ (770)	$ (1,460)	$ (2,230)
Other comprehensive loss before reclassifications	(15,881)	(19,498)	(35,379)
Amounts reclassified from accumulated other comprehensive loss	—	5,378	5,378
Net current-period other comprehensive loss	(15,881)	(14,120)	(30,001)
Ending balance	$ (16,651)	$ (15,580)	$(32,231)

14. Stock Repurchases

Accelerated Stock Repurchase Program

On December 21, 2021, the Board of Directors authorized the Company to repurchase up to $75 million of its outstanding common stock and the Company entered into an accelerated stock repurchase agreement dated December 21, 2021 (the “ASR Agreement”) with JPMorgan Chase Bank, National Association (“JPM”) to repurchase an aggregate of $37.5 million of its common stock.

Pursuant to the terms of the ASR Agreement, the Company paid to JPM $37.5 million 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 $20.1 million 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 $17.4 million in additional paid-in capital in stockholders’ equity in its consolidated balance sheets.

In March 2022, the previously announced repurchase of $37.5 million 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 $17.2 million at a price per share of $16.69, which was reclassified as treasury stock from additional paid-in capital in stockholder’s equity in its consolidated balance sheets.

Expanded Stock Repurchase Program

On August 31, 2022, the Board of Directors authorized an expansion of the Company’s previously announced stock repurchase program from $75 million to $87.5 million of its common stock. The remaining $50 million of the expanded $87.5 million program was expected to be repurchased in the open market or through privately negotiated transactions.

In June 2023, the Company completed the repurchase of its common stock under its expanded stock repurchase program using the remaining $50 million through open market purchases.

From September 2022 to December 2022, the Company repurchased 1,235,650 shares of its common stock in the open market for an aggregate purchase price of $12.5 million and a weighted average price per share of $10.13 under the expanded stock repurchase program.

During the first half of 2023, the Company repurchased 3,705,443 shares of its common stock in the open market for an aggregate purchase price of $37.4 million and a weighted average price per share of $10.10 under the expanded stock repurchase program.

New Stock Repurchase Program

On July 19, 2023, the Board of Directors authorized a new $50 million stock buyback program. Purchases have been and will be made in the open market or through privately negotiated transactions, depending upon market conditions and other factors.

From August 2023 to September 2023, the Company repurchased 671,498 shares of its common stock in the open market for an aggregate purchase price of $5.4 million and a weighted average price per share of $7.98 under the new stock repurchase program.

In October 2023, the Company repurchased 904,977 shares of its common stock in the open market for an aggregate purchase price of $7.0 million and a weighted average price per share of $7.78 under the new stock repurchase program.

15. Loss Per Share

The following table illustrates the computation of basic and diluted loss per common share for the three and nine months ended September 30, 2023 and 2022:

	Three Months Ended		Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
	(In thousands of U.S. dollars, except share data)			
Basic loss per share				
Net loss	$ (5,165)	$ (17,195)	$ (30,582)	$ (11,007)
Basic weighted average common stock outstanding	40,145,290	44,865,266	41,747,255	45,119,214
Basic loss per common share	$ (0.13)	$ (0.38)	$ (0.73)	$ (0.24)
Diluted loss per share				
Net loss	$ (5,165)	$ (17,195)	$ (30,582)	$ (11,007)
Basic weighted average common stock outstanding	40,145,290	44,865,266	41,747,255	45,119,214
Net effect of dilutive equity awards	—	—	—	—
Diluted weighted average common stock outstanding	40,145,290	44,865,266	41,747,255	45,119,214
Diluted loss per share	$ (0.13)	$ (0.38)	$ (0.73)	$ (0.24)

Diluted loss per share adjusts basic loss per share for the potentially dilutive impact of stock options and restricted stock units. As the Company has reported loss for the three and nine months ended September 30, 2023 and September 30, 2022, all potentially dilutive securities are anti-dilutive and accordingly not considered, therefore basic net loss per share equals diluted net loss per share.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Options	902,858	1,141,551	902,858	1,141,551
Restricted Stock Units	1,321,794	1,014,124	1,321,794	1,014,124

16. 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 $3,907 thousand and $6,605 thousand as other current assets as of September 30, 2023 and December 31, 2022, respectively.

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, 2022 filed on February 22, 2023 ("2022 Form 10-K").

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 1,100 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, automotives, entertainment devices, IT applications such as monitors, notebook PCs, tablet PC and TVs applied with liquid crystal display (LCD), organic light emitting diodes (OLED) and Micro light emitting diode (Micro LED) panel. 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 UHD (Ultra High Definition) for a wide range of applications including smartphones, TVs, automotive and IT applications such as monitors, notebook PCs, tablet PCs as well as AR/VRs.

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 electrics, 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 in Korea and substantial manufacturing operations 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.

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, Korea in 2020. 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 in the case of facing with a worldwide shortage of foundry services. Although we work 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

New Stock Repurchase Program

On July 19, 2023, our Board of Directors authorized a new $50 million stock buyback program. Purchases have been and will be made in the open market or in privately negotiated transactions, depending upon market conditions and other factors.

From August 2023 to September 2023, we repurchased 671,498 shares of our common stock in the open market for an aggregate purchase price of $5.4 million and a weighted average price per share of $7.98 under the new stock repurchase program.

In October 2023, we repurchased 904,977 shares of our common stock in the open market for an aggregate purchase price of $7.0 million and a weighted average price per share of $7.78 under the new stock repurchase program.

Macroeconomic Industry Conditions

The semiconductor industry continues to face a number of macroeconomic challenges, including rising inflation, increased interest rates, supply chain disruptions, capacity constraints, inventory corrections, shifting customer and end-user demand, fluctuations in currency rates, and geopolitical tensions, including without limitation ongoing conflicts involving Russia-Ukraine and Israel-Hamas, any one and all of which can cause volatility and unpredictability in the market for semiconductor products and end-user demand. The length and severity of these macroeconomic events and their overall impact on our business, results of operations and financial condition remain uncertain.

Developments in Export Control Regulations

On October 7, 2022, the Bureau of Industry and Security of the U.S. Department of Commerce published changes to U.S. export control regulations (U.S. Export Regulations), including new restrictions on Chinese entities’ ability to obtain advanced computing chips, develop and maintain supercomputers, and manufacture advanced semiconductors. Further, on October 12, 2022, a new rule went into effect requiring U.S. persons to obtain a license prior to engaging in certain activities that could “support” certain end-uses and end-users, including those related to weapons of mass destruction. Additionally, on October 21, 2022, the Bureau of Industry and Security brought into effect a series of new Foreign Direct Product (FDP) rules and various new controls on advanced computing items, significantly expanding the scope of items that are subject to export control under the U.S. Export Regulations. Based on our understanding of the U.S. Export Regulations and related rules currently in effect, we do not anticipate that they will have a material impact on our business. More recently, on October 17, 2023, the Bureau of Industry and Security released additional rules (set to go into effect on November 16, 2023) to expand, clarify, and correct the rules published on October 7, 2022. We are still evaluating these additional rules and their potential impact on our business. Additional changes to the U.S. Export Regulations are expected, but the scope or timing of such changes is unknown. We will continue to monitor such developments, including potential additional trade restrictions, and other regulatory or policy changes by the U.S. and foreign governments.

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

Adjusted EBITDA, Adjusted Operating Income (Loss) and Adjusted Net Income (Loss)

We use the terms Adjusted EBITDA, Adjusted Operating Income (Loss) and Adjusted Net Income (Loss) (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 (gain), net and (iv) early termination and other charges, net. EBITDA for the periods indicated is defined as net loss before interest income, interest expense, income tax benefit, 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 net income (loss) or any other performance measure derived in accordance with U.S. GAAP, or as an alternative to cash flows from operating activities as a measure of liquidity. A reconciliation of net loss to Adjusted EBITDA is as follows:

	Three Months Ended September 30, 2023	Nine Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2022
	(Dollars in millions)			
Net loss	$ (5.2)	$ (30.6)	$ (17.2)	$ (11.0)
Interest income	(2.4)	(7.9)	(1.8)	(3.6)
Interest expense	0.2	0.6	0.3	0.9
Income tax benefit	(4.4)	(8.6)	(3.9)	(1.4)
Depreciation and amortization	4.1	12.6	3.6	11.2
EBITDA	$ (7.7)	$ (33.8)	$ (19.0)	$ (3.8)
Adjustments:				
Equity-based compensation expense(a)	2.2	5.4	0.9	4.5
Foreign currency loss, net(b)	2.6	4.8	12.8	20.5
Derivative valuation loss (gain), net(c)	0.2	0.2	(0.1)	(0.2)
Early termination and other charges, net(d)	—	9.3	2.5	3.3
Adjusted EBITDA	$ (2.7)	$ (14.2)	$ (3.0)	$ 24.3

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

(b) This adjustment 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 nine months ended September 30, 2023, this adjustment eliminates the termination related charges of $8.4 million in connection with the 2023 Voluntary Resignation Program that we offered and paid to certain employees during the first half of 2023, and $0.8 million of one-time employee incentives. For the three and nine months ended September 30, 2022, this adjustment eliminates $2.8 million of one-time employee incentives, in each period, and professional service fees and expenses of $0.2 million and $1.0 million, respectively, incurred in connection with certain strategic evaluations, both of which were offset in part by a $0.5 million gain on sale of certain legacy equipment of the closed back-end line in our fabrication facility in Gumi. 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.

We present Adjusted Operating Income (Loss) as a supplemental measure of our performance. We prepare Adjusted Operating Income (Loss) 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 (Loss) 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 (Loss) is not a measure defined in accordance with U.S. GAAP and should not be construed as an alternative to operating income or any other performance measure derived 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 (Loss) differently than we do, limiting its usefulness as a comparative measure. In addition, in evaluating Adjusted Operating Income (Loss), you should be aware that in the future we may incur expenses similar to the adjustments in this presentation. We define Adjusted Operating Income (Loss) for the periods indicated as operating income (loss) adjusted to exclude (i) equity-based compensation expense and (ii) early termination and other charges, net.

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

	Three Months Ended September 30, 2023	Nine Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2022
	(Dollars in millions)			
Operating income (loss)	$ (9.2)	$ (41.7)	$ (10.0)	$ 4.9
Adjustments:				
Equity-based compensation expense(a)	2.2	5.4	0.9	4.5
Early termination and other charges, net(b)	—	9.3	2.5	3.3
Adjusted Operating Income (Loss)	$ (7.1)	$ (27.1)	$ (6.6)	$ 12.7

(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 nine months ended September 30, 2023, this adjustment eliminates the termination related charges of $8.4 million in connection with the 2023 Voluntary Resignation Program that we offered and paid to certain employees during the first half of 2023, and $0.8 million of one-time employee incentives. For the three and nine months ended September 30, 2022, this adjustment eliminates $2.8 million of one-time employee incentives, in each period, and professional service fees and expenses of $0.2 million and $1.0 million, respectively, incurred in connection with certain strategic evaluations, both of which were offset in part by a $0.5 million gain on sale of certain legacy equipment of the closed back-end line in our fabrication facility in Gumi. 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.

We present Adjusted Net Income (Loss) (including on a per share basis) as a further supplemental measure of our performance. We prepare Adjusted Net Income (Loss) (including on a per share basis) by adjusting net 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 (Loss) (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 (Loss) (including on a per share basis) for a number of reasons, including:

- we use Adjusted Net Income (Loss) (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 (Loss) (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 (Loss) (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 net income (loss) or any other performance measure derived in accordance with U.S. GAAP, or as an alternative to cash flows from operating activities as a measure of liquidity. We encourage you to evaluate each adjustment and the reasons we consider them appropriate. Other companies in our industry may calculate Adjusted Net Income (Loss) (including on a per share basis) differently than we do, limiting its usefulness as a comparative measure. In addition, in evaluating Adjusted Net Income (Loss) (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 (Loss) (including on a per share basis); for the periods indicated as net loss, adjusted to exclude (i) equity-based compensation expense, (ii) foreign currency loss, net, (iii) derivative valuation loss (gain), net, (iv) early termination and other charges, net and (v) income tax effect on non-GAAP adjustments.

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

	Three Months Ended September 30, 2023	Nine Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2022
	(Dollars in millions, except per share data)			
Net loss	$ (5.2)	$ (30.6)	$ (17.2)	$ (11.0)
Adjustments:				
Equity-based compensation expense(a)	2.2	5.4	0.9	4.5
Foreign currency loss, net(b)	2.6	4.8	12.8	20.5
Derivative valuation loss (gain), net(c)	0.2	0.2	(0.1)	(0.2)
Early termination and other charges, net(d)	—	9.3	2.5	3.3
Income tax effect on non-GAAP adjustments(e)	(1.3)	(3.5)	2.3	7.5
Adjusted Net Income (Loss)	$ (1.6)	$ (14.4)	$ 1.1	$ 24.6
Reported loss per share – basic	$ (0.13)	$ (0.73)	$ (0.38)	$ (0.24)
Reported loss per share – diluted	$ (0.13)	$ (0.73)	$ (0.38)	$ (0.24)
Weighted average number of shares – basic	40,145,290	41,747,255	44,865,266	45,119,214
Weighted average number of shares – diluted	40,145,290	41,747,255	44,865,266	45,119,214
Adjusted Net Income (loss) per share – basic	$ (0.04)	$ (0.35)	$ 0.02	$ 0.55
Adjusted Net Income (loss) per share – diluted	$ (0.04)	$ (0.35)	$ 0.02	$ 0.53
Weighted average number of shares – basic	40,145,290	41,747,255	44,865,266	45,119,214
Weighted average number of shares – diluted	40,145,290	41,747,255	45,747,255	46,134,231

(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 nine months ended September 30, 2023, this adjustment eliminates the termination related charges of $8.4 million in connection with the 2023 Voluntary Resignation Program that we offered and paid to certain employees during the first half of 2023, and $0.8 million of one-time employee incentives. For the three and nine months ended September 30, 2022, this adjustment eliminates $2.8 million of one-time employee incentives, in each period, and professional service fees and expenses of $0.2 million and $1.0 million, respectively, incurred in connection with certain strategic evaluations, both of which were offset in part by a $0.5 million gain on sale of certain legacy equipment of the closed back-end line in our fabrication facility in Gumi. 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 and nine months ended September 30, 2023 and 2022, income tax effect on non-GAAP adjustments were calculated by calculating the tax benefit of each jurisdiction with or without the non-GAAP adjustments. For the three and nine months ended September 30, 2023, this adjustment eliminates the income tax effect on non-GAAP adjustments of negative $1.3 million and negative $3.5 million, respectively, which mainly related to our Korean subsidiary. For the three and nine months ended September 30, 2022, this adjustment eliminates the income tax effect on non-GAAP adjustments of $2.3 million and $7.5 million, respectively, which mainly related to our Korean subsidiary.

We believe that all adjustments to net loss used to calculate Adjusted Net Income (Loss) was applied consistently to the periods presented.

Adjusted Net Income (Loss) 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 (Loss) does not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted Net Income (Loss) does not consider the potentially dilutive impact of issuing equity-based compensation to our management team and employees;
- Adjusted Net Income (Loss) 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 (Loss) differently than we do, limiting its usefulness as a comparative measure.

Because of these limitations, Adjusted Net Income (Loss) 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 (Loss) 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 fabrication facility 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 nine months ended September 30, 2023 and 2022, we sold products to 157 and 169 customers, respectively, and our net sales to our ten largest customers (which does not include the Transitional Fab 3 Foundry Services) represented 70% of our net sales—standard products business, in each period.

We are currently in the process of winding down the Transitional Fab 3 Foundry Services, which represented 15.7% and 13.8% of our total revenues for the three and nine months ended September 30, 2023, respectively.

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

Average Selling Prices. Average selling prices for our products tend to be highest at the time of introduction of new products which utilize the latest technology and tend to decrease over time as such products mature in the market and are replaced by next generation products. We strive to offset the impact of declining selling prices for existing products through our product development activities and by introducing new products that command selling prices above the average selling price of our existing products. In addition, we seek to manage our inventories and manufacturing capacity so as to preclude losses from product and productive capacity obsolescence.

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

Labor Costs. A significant portion of our employees are located in Korea. Under Korean labor laws, most employees and certain executive officers with one or more years of service are entitled to severance benefits upon the termination of their employment based on their length of service and rate of pay. As of September 30, 2023, approximately 97% 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 3 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.

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 September 30, 2023, the outstanding intercompany loan balance including accrued interest between our Korean subsidiary and our Dutch subsidiary was $281.7 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.

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

Results of Operations – Comparison of Three Months Ended September 30, 2023 and 2022

The following table sets forth consolidated results of operations for the three months ended September 30, 2023 and 2022:

	Three Months Ended September 30, 2023		Three Months Ended September 30, 2022		
	Amount	% of Total Revenues	Amount	% of Total Revenues	Change Amount
	(Dollars in millions)				
Revenues					
Net sales – standard products business	$ 51.6	84.3%	$ 62.8	88.2%	$ (11.2)
Net sales – transitional Fab 3 foundry services	9.6	15.7	8.4	11.8	1.2
Total revenues	61.2	100.0	71.2	100.0	(10.0)
Cost of sales					
Cost of sales – standard products business	36.8	60.1	45.5	63.9	(8.7)
Cost of sales – transitional Fab 3 foundry services	9.9	16.2	8.5	11.9	1.5
Total cost of sales	46.8	76.4	54.0	75.8	(7.2)
Gross profit	14.5	23.6	17.2	24.2	(2.7)
Selling, general and administrative expenses	12.1	19.7	11.4	16.0	0.7
Research and development expenses	11.6	19.0	13.3	18.7	(1.7)
Other charges, net	—	—	2.5	3.5	(2.5)
Operating loss	(9.2)	(15.1)	(10.0)	(14.1)	0.8
Interest income	2.4	3.9	1.8	2.5	0.6
Interest expense	(0.2)	(0.3)	(0.3)	(0.4)	0.1
Foreign currency loss, net	(2.6)	(4.2)	(12.8)	(18.0)	10.2
Others, net	0.1	0.1	0.2	0.2	(0.1)
	(0.3)	(0.5)	(11.1)	(15.6)	10.8
Loss before income tax expense	(9.5)	(15.6)	(21.1)	(29.7)	11.6
Income tax benefit	(4.4)	(7.1)	(3.9)	(5.5)	(0.4)
Net loss	$ (5.2)	(8.4)	$ (17.2)	(24.2)	$ 12.0

	Three Months Ended September 30, 2023		Three Months Ended September 30, 2022		
	Amount	% of Total Revenues	Amount	% of Total Revenues	Change Amount
	(Dollars in millions)				
Revenues					
Net sales – standard products business					
Display Solutions	$ 6.4	10.5%	$ 6.4	8.9%	$ 0.0
Power Solutions	45.2	73.8	56.4	79.2	(11.2)
Total standard products business	51.6	84.3	62.8	88.2	(11.2)
Net sales – transitional Fab 3 foundry services	9.6	15.7	8.4	11.8	1.2
Total revenues	$ 61.2	100.0%	$ 71.2	100.0%	$ (10.0)

	Three Months Ended September 30, 2023		Three Months Ended September 30, 2022		
	Amount	% of Net Sales	Amount	% of Net Sales	Change Amount
	(Dollars in millions)				
Gross Profit					
Gross profit – standard products business	$ 14.8	28.7%	$ 17.3	27.5%	$ (2.5)
Gross profit – transitional Fab 3 foundry services	(0.3)	(3.2)	(0.0)	(0.6)	(0.3)
Total gross profit	$ 14.5	23.6%	$ 17.2	24.2%	$ (2.7)

Revenues

Total revenues were $61.2 million for the three months ended September 30, 2023, a $10.0 million, or 14.0%, decrease compared to $71.2 million for the three months ended September 30, 2022. 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 $51.6 million for the three months ended September 30, 2023, an $11.2 million, or 17.8%, decrease compared to $62.8 million for the three months ended September 30, 2022.

Net sales from our Display Solutions business line for the three months ended September 30, 2023 was $6.4 million, which remained flat compared to the three months ended September 30, 2022. A slight increase in revenue from our mobile OLED display driver ICs was offset by a decrease in revenue from our OLED TV driver ICs and auto-LCD DDIC business.

Net sales from our Power Solutions business line decreased from $56.4 million for the three months ended September 30, 2022 to $45.2 million for the three months ended September 30, 2023. The decrease was attributable to lower demand for power products such as MOSFETs, including high-end MOSFETs, primarily for TVs, smartphones and e-bikes, mainly due to the industry-wide slowdown. Weak demand for IGBTs for solar inverters also had an unfavorable impact on net sales.

The transitional Fab 3 foundry services. Net sales from the transitional Fab 3 foundry services were $9.6 million and $8.4 million for the three months ended September 30, 2023 and 2022, respectively.

Gross Profit

Total gross profit was $14.5 million for the three months ended September 30, 2023 compared to $17.2 million for the three months ended September 30, 2022, a $2.7 million, or 15.9%, decrease. Gross profit as a percentage of net sales for the three months ended September 30, 2023 decreased to 23.6% compared to 24.2% for the three months ended September 30, 2022. The decrease in gross profit and the increase in gross profit as a percentage of net sales were due primarily to our standard products business as further described below.

The standard products business. Gross profit from our standard products business was $14.8 million for the three months ended September 30, 2023, which represented a $2.5 million, or 14.4%, decrease from a gross profit of $17.3 million for the three months ended September 30, 2022. The decrease in gross profit was primarily attributable to a decrease in net sales from our standard product business as explained above. Gross profit as a percentage of net sales for the three months ended September 30, 2023 increased to 28.7% from 27.5% for the three months ended September 30, 2022. The year-over-year increase in gross profit as a percentage of net sales was primarily attributable to the $3.3 million scrap charge recorded in the third quarter of 2022, which stemmed from lower demand for 12-inch display products as a result of lower demand for China smartphones. Excluding this scrap charge, gross profit as a percentage of net sales decreased year-over-year due mainly to an unfavorable product mix, and higher manufacturing input costs such as electricity and wages.

Net Sales – Standard Products Business by Geographic Region

We report net sales – standard products business by geographic region based on the location to which the products are billed. The following table sets forth our net sales—standard products business by geographic region and the percentage of total net sales—standard products business represented by each geographic region for the three months ended September 30, 2023 and 2022:

	Three Months Ended September 30, 2023		Three Months Ended September 30, 2022		
	Amount	% of Net Sales – standard products business	Amount	% of Net Sales – standard products business	Change Amount
	(Dollars in millions)				
Korea	$ 19.2	37.3%	$ 23.9	38.0%	$ (4.6)
Asia Pacific (other than Korea)	29.9	57.8	34.6	55.1	(4.8)
United States	1.2	2.4	2.7	4.3	(1.5)
Europe	1.3	2.5	1.6	2.5	(0.3)
	$ 51.6	100.0%	$ 62.8	100.0%	$ (11.2)

Net sales – standard products business in Korea decreased from $23.9 million for the three months ended September 30, 2022 to $19.2 million for the three months ended September 30, 2023, or by $4.6 million, or 19.3%, primarily due to lower demand for power products such as MOSFETs, including high-end MOSFETs, primarily for TVs and smartphone applications. Weak demand for our OLED TV display driver ICs also had an unfavorable impact on net sales.

Net sales – standard products business in Asia Pacific (other than Korea) decreased from $34.6 million in the three months ended September 30, 2022 to $29.9 million for the three months ended September 30, 2023, or by $4.8 million, or 13.7%, primarily due to lower demand for our power products such as MOSFETs, mainly for e-bikes, and IGBTs, primarily for solar inverters. This was partially offset by a revenue increase from our mobile OLED display driver ICs.

Operating Expenses

Selling, General and Administrative Expenses. Selling, general and administrative expenses were $12.1 million, or 19.7% of total revenues, for the three months ended September 30, 2023, compared to $11.4 million, or 16.0% of total revenues, for the three months ended September 30, 2022. The increase of $0.7 million, or 5.9%, was primarily attributable to an increase in employee compensation, which was mostly due to an adjustment that we recorded in the third quarter of 2022 to decrease estimated equity-based compensation reflecting the then-estimated financial performance for the full year of 2022. This increase was offset in part by a decrease in certain sales and marketing expenses.

Research and Development Expenses. Research and development expenses were $11.6 million, or 19.0% of total revenues, for the three months ended September 30, 2023, compared to $13.3 million, or 18.7% of total revenues, for the three months ended September 30, 2022. The decrease of $1.7 million, or 12.7%, was primarily attributable to a decrease in material costs for our 28-nanometer OLED display driver ICs due to a timing shift for certain development activities, and a decrease in employee compensation, including certain incentives.

Other Charges, Net. For the three months ended September 30, 2022, we recorded $2.8 million of one-time employee incentives and $0.2 million of professional service fees and expenses incurred in connection with certain strategic evaluations, which was offset in part by a $0.5 million gain on sale of certain legacy equipment from the closed back-end line in our fabrication facility in Gumi.

Operating Loss

As a result of the foregoing, operating loss of $9.2 million was recorded for the three months ended September 30, 2023 compared to operating loss of $10.0 million for the three months ended September 30, 2022. As discussed above, the decrease in operating loss of $0.8 million resulted primarily from a $2.5 million decrease in other charges, net and a $1.7 million decrease in research and development expenses, which was offset in part by a $2.7 million decrease in gross profit and a $0.7 million increase in selling, general and administrative expenses.

Other Income (Expense)

Interest Income. Interest income was $2.4 million and $1.8 million for the three months ended September 30, 2023 and September 30, 2022, respectively. The increase of $0.6 million, or 33.5%, was primarily attributable to an increase in interest income on cash and cash equivalents held by our Korean subsidiary, which benefited from increased market interest rates.

Interest Expense. Interest expense was $0.2 million and $0.3 million for the three months ended September 30, 2023 and September 30, 2022, respectively.

Foreign Currency Loss, Net. Net foreign currency loss for the three months ended September 30, 2023 was $2.6 million compared to net foreign currency loss of $12.8 million for the three months ended September 30, 2022. The net foreign currency loss for the three months ended September 30, 2023 and September 30, 2022 was due to the depreciation in value of the Korean won relative to the U.S. dollar during each respective period.

A substantial portion of our net foreign currency gain or loss is non-cash translation gain or loss associated with intercompany long-term loans to our Korean subsidiary, which are denominated in U.S. dollars, and are affected by changes in the exchange rate between the Korean won and the U.S. dollar. As of September 30, 2023 and September 30, 2022, the outstanding intercompany loan balances, including accrued interest between our Korean subsidiary and our Dutch subsidiary, were $281.7 million and $356.7 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.

Income Tax Benefit

Income tax benefit was $4.4 million for the three months ended September 30, 2023, which was primarily attributable to the estimated taxable loss in our Korean subsidiary for the respective period.

Income tax benefit was $3.9 million for the three months ended September 30, 2022, which was primarily attributable to the decrease in the pre-tax income due to foreign currency translation losses associated with intercompany long-term loans in our Korean subsidiary for the respective period.

Net Loss

As a result of the foregoing, a net loss of $5.2 million was recorded for the three months ended September 30, 2023, compared to a net loss of $17.2 million for the three months ended September 30, 2022. As discussed above, the $12.0 million decrease in net loss was primarily attributable to a $10.2 million improvement in net foreign currency loss, a $0.8 million decrease in operating loss, a $0.6 million increase in interest income and a $0.4 million increase in income tax benefit.

Results of Operations – Comparison of Nine Months Ended September 30, 2023 and 2022

The following table sets forth consolidated results of operations for the nine months ended September 30, 2023 and 2022:

	Nine Months Ended September 30, 2023		Nine Months Ended September 30, 2022		
	Amount	% of Total Revenues	Amount	% of Total Revenues	Change Amount
			(Dollars in millions)		
Revenues					
Net sales – standard products business	$154.5	86.2%	$248.1	89.7%	$ (93.6)
Net sales – transitional Fab 3 foundry services	24.7	13.8	28.6	10.3	(3.9)
Total revenues	179.2	100.0	276.7	100.0	(97.4)
Cost of sales					
Cost of sales – standard products business	112.0	62.5	165.2	59.7	(53.2)
Cost of sales – transitional Fab 3 foundry services	27.1	15.1	26.3	9.5	0.8
Total cost of sales	139.1	77.6	191.5	69.2	(52.4)
Gross profit	40.1	22.4	85.2	30.8	(45.1)
Selling, general and administrative expenses	36.4	20.3	38.3	13.8	(1.9)
Research and development expenses	36.2	20.2	38.7	14.0	(2.5)
Early termination and other charges, net	9.3	5.2	3.3	1.2	6.0
Operating income (loss)	(41.7)	(23.3)	4.9	1.8	(46.6)
Interest income	7.9	4.4	3.6	1.3	4.4
Interest expense	(0.6)	(0.4)	(0.9)	(0.3)	0.2
Foreign currency loss, net	(4.8)	(2.7)	(20.5)	(7.4)	15.7
Others, net	0.1	0.0	0.6	0.2	(0.5)
	2.6	1.4	(17.2)	(6.2)	19.8
Loss before income tax expense	(39.2)	(21.8)	(12.4)	4.5	(26.8)
Income tax benefit	(8.6)	(4.8)	(1.4)	(0.5)	(7.2)
Net loss	$ (30.6)	(17.1)	$ (11.0)	(4.0)	$ (19.6)

	Nine Months Ended September 30, 2023		Nine Months Ended September 30, 2022		
	Amount	% of Total Revenues	Amount	% of Total Revenues	Change Amount
			(Dollars in millions)		
Revenues					
Net sales – standard products business					
Display Solutions	$ 26.9	15.0%	$ 63.9	23.1%	$ (37.0)
Power Solutions	127.6	71.2	184.2	66.6	(56.6)
Total standard products business	154.5	86.2	248.1	89.7	(93.6)
Net sales – transitional Fab 3 foundry services	24.7	13.8	28.6	10.3	(3.9)
Total revenues	$179.2	100.0%	$276.7	100.0%	$ (97.4)

	Nine Months Ended September 30, 2023		Nine Months Ended September 30, 2022		
	Amount	% of Net Sales	Amount	% of Net Sales	Change Amount
			(Dollars in millions)		
Gross Profit					
Gross profit – standard products business	$ 42.5	27.5%	$ 82.9	33.4%	$ (40.4)
Gross profit – transitional Fab 3 foundry services	(2.4)	(9.7)	2.3	8.0	(4.7)
Total gross profit	$ 40.1	22.4%	$ 85.2	30.8%	$ (45.1)

Revenues

Total revenues were $179.2 million for the nine months ended September 30, 2023, a $97.4 million, or 35.2%, decrease compared to $276.7 million for the nine months ended September 30, 2022. 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 $154.5 million for the nine months ended September 30, 2023, a $93.6 million, or 37.7%, decrease compared to $248.1 million for the nine months ended September 30, 2022.

Net sales from our Display Solutions business line decreased from $63.9 million for the nine months ended September 30, 2022 to $26.9 million for the nine months ended September 30, 2023. 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 lower customer demand as a result of weak global macroeconomic conditions, lingering weakness in Chinese smartphone orders and continued impact of a lack of new design-wins caused by a supply shortage in 2022 (in particular for 28nm 12 inch OLED wafers) at external 12 inch foundries. Weak demand for our OLED TV display driver ICs also had an unfavorable impact on net sales.

Net sales from our Power Solutions business line decreased from $184.2 million for the nine months ended September 30, 2022 to $127.6 million compared to the nine months ended September 30, 2023. The decrease in net sales from our Power Solutions business line was attributable to lower demand for power products such as MOSFETs, including high-end MOSFETs, primarily for TVs, smartphones and e-bikes, mainly due to an industry-wide slowdown. Weak demand for IGBTs for solar inverters also had an unfavorable impact on net sales.

The transitional Fab 3 foundry services. Net sales from the transitional Fab 3 foundry services were $24.7 million and $28.6 million for the nine months ended September 30, 2023 and 2022, respectively.

Gross Profit

Total gross profit was $40.1 million for the nine months ended September 30, 2023 compared to $85.2 million for the nine months ended September 30, 2022, a $45.1 million, or 52.9%, decrease. Gross profit as a percentage of net sales for the nine months ended September 30, 2023 decreased to 22.4%, compared to 30.8% for the nine months ended September 30, 2022. The decrease 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 $42.5 million for the nine months ended September 30, 2023, which represented a $40.4 million, or 48.7%, decrease from a gross profit of $82.9 million for the nine months ended September 30, 2022. The decrease in gross profit was primarily attributable to a significant decrease in net sales from our standard product business as explained above. Gross profit as a percentage of net sales for the nine months ended September 30, 2023 decreased to 27.5% compared to 33.4% for the nine months ended September 30, 2022. The year-over-year decrease in gross profit as a percentage of net sales was primarily attributable to an unfavorable product mix as well as higher manufacturing input costs, such as electricity and wages, and a significant drop in the utilization rate of our internal fabrication facility in Gumi. This decrease was offset in part by the $3.3 million of scrap charge recorded in the third quarter of 2022, which stemmed from lower demand for 12-inch display products as a result of lower demand for China smartphones.

Net Sales – Standard Products Business by Geographic Region

We report net sales – standard products business by geographic region based on the location to which the products are billed. The following table sets forth our net sales—standard products business by geographic region and the percentage of total net sales—standard products business represented by each geographic region for the nine months ended September 30, 2023 and 2022:

	Nine Months Ended September 30, 2023		Nine Months Ended September 30, 2022		
	Amount	% of Net Sales – standard products business	Amount	% of Net Sales – standard products business	Change Amount
			(Dollars in millions)		
Korea	$ 50.1	32.5%	$ 86.1	34.7%	$ (35.9)
Asia Pacific (other than Korea)	96.8	62.6	148.9	60.0	(52.2)
United States	2.5	1.6	8.1	3.3	(5.6)
Europe	5.1	3.3	5.0	2.0	0.1
	$154.5	100.0%	$248.1	100.0%	$ (93.6)

Net sales – standard products business in Korea decreased from $86.1 million for the nine months ended September 30, 2022 to $50.1 million for the nine months ended September 30, 2023, or by $35.9 million, or 41.7%. This decrease was primarily due to lower demand for power products such as MOSFETs, including high-end MOSFETs, primarily for TVs and smartphone applications. Weak demand for our mobile OLED display driver ICs and OLED TV display driver ICs also had an unfavorable impact on net sales.

Net sales – standard products business in Asia Pacific (other than Korea) decreased from $148.9 million in the nine months ended September 30, 2022 to $96.8 million for the nine months ended September 30, 2023, or by $52.2 million, or 35.0%, primarily due to a decrease in revenue from our mobile OLED display driver ICs stemming from lower customer demand as a result of weak global macroeconomic conditions, lingering weakness in Chinese smartphone orders and continued impact of a lack of new design-wins caused by a supply shortage in 2022 (in particular for 28nm 12 inch OLED wafers) at external 12 inch foundries. The decreased demand for our power products such as MOSFETs, mainly for e-bikes, and IGBTs, primarily for solar inverters also had an unfavorable impact on net sales.

Operating Expenses

Selling, General and Administrative Expenses. Selling, general and administrative expenses were $36.4 million, or 20.3% of total revenues, for the nine months ended September 30, 2023, compared to $38.3 million, or 13.8% of total revenues, for the nine months ended September 30, 2022. The decrease of $1.9 million, or 5.0%, was primarily attributable to a decrease in employee compensation, including certain incentives and benefit related accruals, a decrease in certain sales and marketing expenses, and a decrease in running royalties recognized based on the revenue of certain mobile OLED display driver ICs.

Research and Development Expenses. Research and development expenses were $36.2 million, or 20.2% of total revenues, for the nine months ended September 30, 2023, compared to $38.7 million, or 14.0% of total revenues, for the nine months ended September 30, 2022. The decrease of $2.5 million, or 6.5%, was primarily attributable to a decrease in employee compensation, including certain incentives, and a decrease in material costs for our 28-nanometer OLED display driver ICs due to a timing shift for certain development activities.

Early Termination and Other Charges, Net. For the nine months ended September 30, 2023, we recorded $8.4 million of termination-related charges in connection with the 2023 Voluntary Resignation Program that we offered and paid to certain employees during the first half of 2023, and $0.8 million of one-time employee incentives. For the nine months ended September 30, 2022, we recorded $2.8 million of one-time employee incentives and $1.0 million of professional service fees and expenses incurred in connection with certain strategic evaluations, which was offset in part by a $0.5 million gain on sale of certain legacy equipment of the closed back-end line in our fabrication facility in Gumi.

Operating Income (Loss)

As a result of the foregoing, operating loss of $41.7 million was recorded for the nine months ended September 30, 2023, compared to operating income of $4.9 million for the nine months ended September 30, 2022. As discussed above, the decrease in operating income of $46.6 million resulted primarily from a $45.1 million decrease in gross profit and a $6.0 million increase in early termination and other charges, net, which were offset in part by a $2.5 million decrease in research and development expenses and a $1.9 million decrease in selling, general and administrative expenses.

Other Income (Expense)

Interest Income. Interest income was $7.9 million and $3.6 million for the nine months ended September 30, 2023 and September 30, 2022, respectively. The increase of $4.4 million, or 122.4%, was primarily attributable to an increase in interest income on cash and cash equivalents held by our Korean subsidiary, which benefited from increased market interest rates.

Interest Expense. Interest expense was $0.6 million and $0.9 million for the nine months ended September 30, 2023 and September 30, 2022, respectively.

Foreign Currency Loss, Net. Net foreign currency loss for the nine months ended September 30, 2023 was $4.8 million compared to net foreign currency loss of $20.5 million for the nine months ended September 30, 2022. The net foreign currency loss for the nine months ended September 30, 2023 and September 30, 2022 was due to the depreciation in value of the Korean won relative to the U.S. dollar during each respective period.

A substantial portion of our net foreign currency gain or loss is non-cash translation gain or loss associated with intercompany long-term loans to our Korean subsidiary, which are denominated in U.S. dollars, and are affected by changes in the exchange rate between the Korean won and the U.S. dollar. As of September 30, 2023 and September 30, 2022, the outstanding intercompany loan balances, including accrued interest between our Korean subsidiary and our Dutch subsidiary, were $281.7 million and $356.7 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.

Income Tax Benefit

Income tax benefit was $8.6 million for the nine months ended September 30, 2023, which was primarily attributable to the estimated taxable loss in our Korean subsidiary for the respective period.

Income tax benefit was $1.4 million for the nine months ended September 30, 2022, which was primarily attributable to the decrease in the pre-tax income due to foreign currency translation losses associated with intercompany long-term loans in our Korean subsidiary for the respective period.

Net Loss

As a result of the foregoing, a net loss of $30.6 million was recorded for the nine months ended September 30, 2023, compared to a net loss of $11.0 million for the nine months ended September 30, 2022. As discussed above, the $19.6 million increase in net loss was primarily attributable to a $46.6 million decrease in operating income, which was offset in part by a $15.7 million improvement in net foreign currency loss, a $7.2 million increase in income tax benefit and a $4.4 million increase in interest income.

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 September 30, 2023, we did not have any accounts payable on extended terms or payment deferment 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 September 30, 2023, the outstanding obligation of this arrangement is approximately $20.7 million for remaining service term through 2028.

As of September 30, 2023, cash and cash equivalents held by our Korean subsidiary were $152.8 million, which represents 92% 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 September 30, 2023 was $230.3 million compared to $290.6 million as of December 31, 2022. The $60.3 million decrease was primarily attributable to a $58.8 million decrease in cash and cash equivalents resulted primarily from our continued execution of stock repurchase programs, and the 2023 Voluntary Resignation Program that we offered and paid to certain employees during the first half of 2023.

Cash Flows from Operating Activities

Cash outflow used in operating activities totaled $0.2 million for the nine months ended September 30, 2023, compared to $50.2 million of cash inflow provided by operating activities for the nine months ended September 30, 2022. The net operating cash outflow for the nine months ended September 30, 2023 reflects our net loss of $30.6 million, as adjusted favorably by $41.6 million, which mainly consisted of depreciation and amortization, provision for severance benefits, net foreign currency loss and stock-based compensation, and net unfavorable impact of $11.2 million from changes of operating assets and liabilities.

Cash Flows from Investing Activities

Cash outflow used in investing activities totaled $4.6 million for the nine months ended September 30, 2023, compared to $25.9 million of cash outflow used in investing activities for the nine months ended September 30, 2022. The $21.3 million decrease in cash outflow was primarily attributable to a $12.7 million net decrease in hedge collateral and a $9.5 million decrease in purchase of property, plant and equipment, which was offset in part by a $0.5 million net increase in guarantee deposits.

Cash Flows from Financing Activities

Cash outflow used in financing activities totaled $43.5 million for the nine months ended September 30, 2023, compared to $3.7 million of cash outflow used in financing activities for the nine months ended September 30, 2022. The financing cash outflow for the nine months ended September 30, 2023 was primarily attributable to a payment of $42.7 million for the repurchases of our common stock pursuant to our stock repurchase programs and a payment of $0.4 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 outflow for the nine months ended September 30, 2022 was primarily attributable to a payment of $3.2 million for the repurchase of our common stock pursuant to our then-effective stock repurchase program and a payment of $1.8 million for the repurchase of our common stock to satisfy tax withholding obligations in connection with the vesting of restricted stock units, which was offset entirely by $1.8 million of proceeds received from the issuance of common stock in connection with the exercise of stock options.

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 nine months ended September 30, 2023, capital expenditures for property, plant and equipment were $2.3 million, a $9.5 million, or 80.7%, decrease from $11.8 million for the nine months ended September 30, 2022. The capital expenditures for the nine months ended September 30, 2023 and 2022 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, 2022, or our 2022 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 2022 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 2022 Form 10-K.

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 with respect to foreign currency movements. However, based on the cash and financial instruments balance at September 30, 2023 for our Korean subsidiary, a 10% devaluation of the Korean won against the U.S. dollar would have resulted in a decrease of $0.9 million in our U.S. dollar financial instruments and cash balances.

See “Note 6. 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 September 30, 2023, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2023.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended September 30, 2023 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 2022 Form 10-K.

See also "Item 1A. Risk Factors" in this Report and "Part I: Item 1A. Risk Factors" of our 2022 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.

In addition to the other information contained in this Report and the other reports and materials the Company files with the SEC, investors should carefully consider the risk factors disclosed in Part I, Item 1A of our 2022 Form 10-K as well as in our subsequent filings with the SEC. The risks described herein and therein are not the only ones we face.

There have been no material changes to the risk factors disclosed in Part I, Item 1A of our 2022 Form 10-K and Part II, Item 1A of our Quarterly Report on Form 10-Q filed on August 8, 2023.

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 September 30, 2023.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1)	Approximate dollar value of Shares that may yet be Purchased under the Plans or Programs (in thousands)(1)
July 2023	—	—	—	—
August 2023	144,294	$ 8.17	144,294	$ 48,821
September 2023	527,204	$ 7.93	527,204	$ 44,638
Total	671,498	$ 7.98	671,498	$ 44,638

(1) On July 19, 2023, the Company's Board of Directors authorized a new $50 million stock buyback program. Purchases have been and will be made in the open market or through privately negotiated transactions, depending upon market conditions and other factors. In connection with the repurchase program, the Company established a stock trading plan with Needham & Company, LLC in accordance with Rule 10b5-1 under the Exchange Act.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Securities Trading Plans of Directors and Executive Officers

During our last fiscal quarter, no director or officer, as defined in Rule 16a-1(f), adopted or terminated a "Rule 10b5-1 trading arrangement" or a "non-Rule 10b5-1 trading arrangement," each as defined in Regulation S-K Item 408.

Item 6. Exhibits.

Exhibit Number	Description
31.1[#]	Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 of the Chief Executive Officer.
31.2[#]	Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 of the 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

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SIGNATURES

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

MAGNACHIP SEMICONDUCTOR CORPORATION
(Registrant)

Dated: November 8, 2023

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

Dated: November 8, 2023

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

Exhibit 31.1

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

I, Young-Joon Kim, certify that:

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

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

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

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

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

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

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

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

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

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

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

Dated: November 8, 2023

/s/ Young-Joon Kim

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

Exhibit 31.2

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

I, 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: November 8, 2023

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

Exhibit 32.1

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

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

(i) the Quarterly Report on Form 10-Q of the Company for the quarterly period ended September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "**Report**") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

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

Dated: November 8, 2023

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

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

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

Exhibit 32.2

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

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

(i) the Quarterly Report on Form 10-Q of the Company for the quarterly period ended September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "**Report**") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

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

Dated: November 8, 2023

/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.