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DELTA REPORT

10-Q

MX - MAGNACHIP SEMICONDUCTOR C

10-Q - JUNE 30, 2023 COMPARED TO 10-Q - MARCH 31, 2023

The following comparison report has been automatically generated

TOTAL DELTAS 1155

■ CHANGES	243
■ DELETIONS	367
■ ADDITIONS	545

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

FORM 10-Q

FORM 10-Q

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

For the quarterly period ended March 31, 2023 June 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 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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>		
Non-accelerated filer			
Smaller reporting company	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company		Emerging growth company	<input type="checkbox"/>

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

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

As of April 30, 2023 July 31, 2023, the registrant had 42,265,480 40,259,499 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)**

		June 30, 2023	December 31, 2022
(In thousands of U.S. dollars, except share data)			
Assets			
Current assets			
Cash and cash equivalents	\$ 172,954	\$ 225,477	
Accounts receivable, net	35,009	35,380	
Inventories, net	32,337	39,883	
Other receivables	3,498	7,847	
Prepaid expenses	9,553	10,560	
Hedge collateral (Note 6)	2,120	2,940	
Other current assets (Note 16)	19,070	15,766	
Total current assets	274,541	337,853	
Property, plant and equipment, net	101,067	110,747	
Operating lessor-right-of-use assets	5,224	5,265	
Intangible assets, net	1,706	1,930	
Long-term prepaid expenses	7,430	10,939	
Deferred income taxes	37,141	38,324	
Other non-current assets	16,626	11,587	
Total assets	\$ 443,735	\$ 516,645	
Liabilities and Stockholders' Equity			
Current liabilities			
Accounts payable	\$ 20,367	\$ 17,998	
Other accounts payable	8,473	9,702	
Accrued expenses (Note 5)	10,456	9,688	
Accrued income taxes	91	3,154	
Operating lease liabilities	1,745	1,397	
Other current liabilities	4,506	5,306	
Total current liabilities	45,638	47,245	
Accrued severance benefits, net	20,123	23,121	
Non-current operating lease liabilities	3,671	4,091	
Other non-current liabilities	10,011	14,035	
Total liabilities	79,443	88,492	
Commitments and contingencies (Note 16)			

Stockholders' equity

Common stock, \$0.01 par value, 150,000,000 shares authorized, 56,449,782 shares issued and 40,133,898 outstanding at June 30, 2023 and 56,432,449 shares issued and 43,824,575 outstanding at December 31, 2022	564	564
Additional paid-in capital	269,297	266,058
Retained earnings	310,089	335,506
Treasury stock, 16,315,884 shares at June 30, 2023 and 12,607,874 shares at December 31, 2022, respectively	(199,248)	(161,422)
Accumulated other comprehensive loss	(16,410)	(12,553)
Total stockholders' equity	364,292	428,153
Total liabilities and stockholders' equity	\$ 443,735	\$ 516,645

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

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

	March 31, 2023	December 31, 2022
	(In thousands of U.S. dollars, except share data)	
Assets		
Current assets		
Cash and cash equivalents	\$ 212,085	\$ 225,477
Accounts receivable, net	32,143	35,380
Inventories, net	36,360	39,883
Other receivables	5,342	7,847
Prepaid expenses	11,238	10,560
Hedge collateral (Note 7)	2,820	2,940
Other current assets (Note 18)	14,927	15,766
Total current assets	314,915	337,853
Property, plant and equipment, net	104,568	110,747
Operating lease right-of-use assets	5,413	5,265
Intangible assets, net	1,784	1,930
Long-term prepaid expenses	9,101	10,939
Deferred income taxes	37,380	38,324
Other non-current assets	14,683	11,587
Total assets	<u>\$ 487,844</u>	<u>\$ 516,645</u>
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 19,921	\$ 17,998
Other accounts payable	9,216	9,702
Accrued expenses (Note 6)	17,125	9,688
Accrued income taxes	146	3,154
Operating lease liabilities	1,622	1,397
Other current liabilities	5,261	5,306
Total current liabilities	53,291	47,245
Accrued severance benefits, net	23,608	23,121
Non-current operating lease liabilities	3,996	4,091
Other non-current liabilities	13,596	14,035
Total liabilities	<u>94,491</u>	<u>88,492</u>
Commitments and contingencies (Note 18)		
Stockholders' equity		
Common stock, \$0.01 par value, 150,000,000 shares authorized, 56,437,182 shares issued and 42,589,315 outstanding at March 31, 2023 and 56,432,449 shares issued and 43,824,575 outstanding at December 31, 2022	564	564
Additional paid-in capital	267,187	266,058

Retained earnings	314,036	335,506
Treasury stock, 13,847,867 shares at March 31, 2023 and 12,607,874 shares at December 31, 2022, respectively	(173,441)	(161,422)
Accumulated other comprehensive loss	(14,993)	(12,553)
Total stockholders' equity	393,353	428,153
Total liabilities and stockholders' equity	\$ 487,844	\$ 516,645

	Three Months Ended		Six Months Ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
	(In thousands of U.S. dollars, except share data)			
Revenues:				
Net sales – standard products business	\$ 51,375	\$ 91,288	\$ 102,889	\$ 185,298
Net sales – transitional Fab 3 foundry services	9,604	10,088	15,095	20,171
Total revenues	60,979	101,376	117,984	205,469
Cost of sales:				
Cost of sales – standard products business	37,867	63,620	75,179	119,700
Cost of sales – transitional Fab 3 foundry services	9,574	8,811	17,173	17,828
Total cost of sales	47,441	72,431	92,352	137,528
Gross profit	13,538	28,945	25,632	67,941
Operating expenses:				
Selling, general and administrative expenses	12,137	12,736	24,302	26,899
Research and development expenses	11,255	13,410	24,553	25,364
Early termination and other charges	802	797	9,251	797
Total operating expenses	24,194	26,943	58,106	53,060
Operating income (loss)	(10,656)	2,002	(32,474)	14,881
Interest income	2,692	1,061	5,534	1,776
Interest expense	(200)	(499)	(456)	(610)
Foreign currency gain (loss), net	1,237	(7,012)	(2,193)	(7,702)
Other income (loss), net	3	211	(32)	429
Income (loss) before income tax expense	(6,924)	(4,237)	(29,621)	8,774
Income tax expense (benefit)	(2,977)	(897)	(4,204)	2,586
Net income (loss)	\$ (3,947)	\$ (3,340)	\$ (25,417)	\$ 6,188
Basic earnings (loss) per common share—	\$ (0.09)	\$ (0.07)	\$ (0.60)	\$ 0.14
Diluted earnings (loss) per common share—	\$ (0.09)	\$ (0.07)	\$ (0.60)	\$ 0.13
Weighted average number of shares—				
Basic	41,741,310	44,897,278	42,561,514	45,248,293
Diluted	41,741,310	44,897,278	42,561,514	46,329,559

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

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

	Three Months Ended	
	March 31, 2023	March 31, 2022
	(In thousands of U.S. dollars, except share data)	
Revenues:		
Net sales – standard products business	\$ 51,514	\$ 94,010
Net sales – transitional Fab 3 foundry services	5,491	10,083
Total revenues	57,005	104,093
Cost of sales:		
Cost of sales – standard products business	37,312	56,080

Cost of sales – transitional Fab 3 foundry services	7,599	9,017
Total cost of sales	44,911	65,097
Gross profit	12,094	38,996
Operating expenses:		
Selling, general and administrative expenses	12,165	14,163
Research and development expenses	13,298	11,954
Early termination charges	8,449	—
Total operating expenses	33,912	26,117
Operating income (loss)	(21,818)	12,879
Interest income	2,842	715
Interest expense	(256)	(111)
Foreign currency loss, net	(3,430)	(690)
Other income (expense), net	(35)	218
Income (loss) before income tax expense	(22,697)	13,011
Income tax expense (benefit)	(1,227)	3,483
Net income (loss)	\$ (21,470)	\$ 9,528
Basic earnings (loss) per common share—	\$ (0.49)	\$ 0.21
Diluted earnings (loss) per common share—	\$ (0.49)	\$ 0.20
Weighted average number of shares—		
Basic	43,390,832	45,603,208
Diluted	43,390,832	46,693,294

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

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MAGNACHIP SEMICONDUCTOR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited) (Unaudited)

	Three Months Ended		Three Months Ended		Six Months Ended	
	March 31, 2023		March 31, 2022		June 30, 2023	June 30, 2022
	(In thousands of U.S. dollars)				(In thousands of U.S. dollars)	
Net income (loss)	\$ (21,470)	\$ 9,528	\$ (3,947)	\$ (3,340)	\$ (25,417)	\$ 6,188
Other comprehensive loss						
Foreign currency translation adjustments	(1,908)	(3,045)	(2,285)	(6,862)	(4,193)	(9,907)
Derivative adjustments						
Fair valuation of derivatives	(1,135)	(1,264)	(375)	(6,477)	(1,510)	(7,741)
Reclassification adjustment for loss on derivatives included in net income (loss)	603	762	1,243	1,796	1,846	2,558
Total other comprehensive loss	(2,440)	(3,547)	(1,417)	(11,543)	(3,857)	(15,090)
Total comprehensive income (loss)	\$ (23,910)	\$ 5,981				
Total comprehensive loss			\$ (5,364)	\$ (14,883)	\$ (29,274)	\$ (8,902)

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) (Unaudited)

	Common Stock	Additional Paid-In	Retained Earnings	Treasury Stock	Accumulated Other	Total

(In thousands of U.S. dollars, except share data)	Shares	Amount	Capital			Comprehensive Loss						
Three Months Ended March 31, 2023:												
Balance at December 31, 2022												
Stock-based compensation	—	—	1,120	—	—	—	1,120					
Exercise of stock options	1,400	0	9	—	—	—	9					
Settlement of restricted stock units	3,333	0	(0)	—	—	—	—					
Acquisition of treasury stock	(1,239,993)	—	—	—	(12,019)	—	(12,019)					
Other comprehensive loss, net	—	—	—	—	—	(2,440)	(2,440)					
Net loss	—	—	—	(21,470)	—	—	(21,470)					
Balance at March 31, 2023	42,589,315	\$ 564	\$ 267,187	\$ 314,036	\$ (173,441)	\$ (14,993)	\$ 393,353					
Three Months Ended March 31, 2022:												
Balance at December 31, 2021												
Stock-based compensation	—	—	1,638	—	—	—	1,638					
Exercise of stock options	151,326	1	1,780	—	—	—	1,781					
Settlement of restricted stock units	168,795	2	(2)	—	—	—	—					
Acquisition of treasury stock	(53,464)	—	—	—	(1,000)	—	(1,000)					
Accelerated stock repurchase	(1,031,576)	—	17,217	—	(17,217)	—	—					
Other comprehensive loss, net	—	—	—	—	—	(3,547)	(3,547)					
Net income	—	—	—	9,528	—	—	9,528					
Balance at March 31, 2022	44,894,385	\$ 562	\$ 261,830	\$ 353,070	\$ (148,523)	\$ (5,777)	\$ 461,162					
Accumulated Other Comprehensive Loss												
(In thousands of U.S. dollars, except share data)	Shares	Amount	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Total					
Three Months Ended June 30, 2023:												
Balance at March 31, 2023												
Stock-based compensation	—	—	2,092	—	—	—	2,092					
Exercise of stock options	2,600	0	18	—	—	—	18					
Settlement of restricted stock units	10,000	0	(0)	—	—	—	—					
Acquisition of treasury stock	(2,468,017)	—	—	—	(25,807)	—	(25,807)					
Other comprehensive loss, net	—	—	—	—	—	(1,417)	(1,417)					
Net loss	—	—	—	(3,947)	—	—	(3,947)					
Balance at June 30, 2023	40,133,898	\$ 564	\$ 269,297	\$ 310,089	\$ (199,248)	\$ (16,410)	\$ 364,292					
Three Months Ended June 30, 2022:												
Balance at March 31, 2022												
Stock-based compensation	—	—	1,988	—	—	—	1,988					
Exercise of stock options	1,000	0	5	—	—	—	5					
Settlement of restricted stock units	8,333	0	(125)	—	—	—	(125)					
Other comprehensive loss, net	—	—	—	—	—	(11,543)	(11,543)					
Net loss	—	—	—	(3,340)	—	—	(3,340)					
Balance at June 30, 2022	44,903,718	\$ 562	\$ 263,698	\$ 349,730	\$ (148,523)	\$ (17,320)	\$ 448,147					
Accumulated Other Comprehensive Loss												
(In thousands of U.S. dollars, except share data)	Shares	Amount	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Total					
Six Months Ended June 30, 2023:												
Balance at December 31, 2022												
Stock-based compensation	—	—	3,212	—	—	—	3,212					
Exercise of stock options	4,000	0	27	—	—	—	27					
Settlement of restricted stock units	13,333	0	(0)	—	—	—	—					
Acquisition of treasury stock	(3,708,010)	—	—	—	(37,826)	—	(37,826)					
Other comprehensive loss, net	—	—	—	—	—	(3,857)	(3,857)					
Net loss	—	—	—	(25,417)	—	—	(25,417)					
Balance at June 30, 2023	40,133,898	\$ 564	\$ 269,297	\$ 310,089	\$ (199,248)	\$ (16,410)	\$ 364,292					
Six Months Ended June 30, 2022:												
Balance at December 31, 2021												
Stock-based compensation	—	—	3,626	—	—	—	3,626					

Exercise of stock options	152,326	1	1,785	—	—	—	1,786
Settlement of restricted stock units	177,128	2	(127)	—	—	—	(125)
Acquisition of treasury stock	(53,464)	—	—	—	(1,000)	—	(1,000)
Accelerated stock repurchase	(1,031,576)	—	17,217	—	(17,217)	—	—
Other comprehensive loss, net	—	—	—	—	—	(15,090)	(15,090)
Net income	—	—	—	6,188	—	—	6,188
Balance at June 30, 2022	44,903,718	\$ 562	\$ 263,698	\$ 349,730	\$ (148,523)	\$ (17,320)	\$ 448,147

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

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

	Three Months Ended		Six Months Ended	
	March 31, 2023	March 31, 2022	June 30, 2023	June 30, 2022
	(In thousands of U.S. dollars)		(In thousands of U.S. dollars)	
Cash flows from operating activities				
Net income (loss)	\$ (21,470)	\$ 9,528	\$ (25,417)	\$ 6,188
Adjustments to reconcile net income (loss) to net cash provided by operating activities				
Depreciation and amortization	4,357	3,891	8,502	7,602
Provision for severance benefits	2,330	1,670	4,091	3,240
Loss on foreign currency, net	9,082	6,380	9,117	29,183
Provision for inventory reserves	1,138	145	1,121	5,282
Stock-based compensation	1,120	1,638	3,212	3,626
Other, net	237	161	450	712
Changes in operating assets and liabilities				
Accounts receivable, net	2,973	(1,213)	(342)	(12,377)
Inventories	1,062	1,456	4,911	(5,486)
Other receivables	2,376	667	4,407	11,640
Other current assets	1,456	(6,829)	395	(2,089)
Accounts payable	1,904	538	2,880	2,429
Other accounts payable	(1,424)	(702)	(6,488)	(5,861)
Accrued expenses	7,600	187	1,104	(2,709)
Accrued income taxes	(2,923)	(2,346)	(2,972)	(11,513)
Other current liabilities	(596)	(711)	(471)	(2,153)
Other non-current liabilities	(169)	(73)	(214)	570
Payment of severance benefits	(871)	(1,389)	(5,728)	(2,934)
Other, net	(306)	(178)	(487)	(385)
Net cash provided by operating activities	7,876	12,820		
Net cash provided by (used in) operating activities			(1,929)	24,965
Cash flows from investing activities				
Proceeds from settlement of hedge collateral	1,155	1,829	3,335	2,805
Payment of hedge collateral	(1,093)	(2,891)	(2,586)	(6,844)
Purchase of property, plant and equipment	(135)	(944)	(1,518)	(1,511)
Payment for intellectual property registration	(74)	(59)	(163)	(153)
Payment of guarantee deposits	(3,482)	(79)	(6,907)	(1,049)
Other, net	19	2	1,445	14
Net cash used in investing activities	(3,610)	(2,142)	(6,394)	(6,738)

Cash flows from financing activities					
Proceeds from exercise of stock options	9	1,781	27	1,786	
Acquisition of treasury stock	(12,264)	(830)	(36,840)	(1,826)	
Repayment of financing related to water treatment facility arrangement	(126)	(134)	(248)	(261)	
Repayment of principal portion of finance lease liabilities	(24)	(16)	(46)	(32)	
Net cash provided by (used in) financing activities	(12,405)	801			
Net cash used in financing activities			(37,107)	(333)	
Effect of exchange rates on cash and cash equivalents	(5,253)	(6,105)	(7,093)	(23,644)	
Net increase (decrease) in cash and cash equivalents	(13,392)	5,374			
Net decrease in cash and cash equivalents			(52,523)	(5,750)	
Cash and cash equivalents					
Cash and cash equivalents at beginning of period	225,477	279,547	225,477	279,547	
Cash and cash equivalents at end of period	\$ 212,085	\$ 284,921	\$ 172,954	\$ 273,797	
Supplemental cash flow information					
Cash paid for income taxes	\$ 2,644	\$ 5,421	\$ 3,599	\$ 14,022	
Non-cash investing activities					
Property, plant and equipment additions in other accounts payable	\$ 629	\$ 524	\$ 477	\$ 4,050	
Non-cash financing activities					
Acquisition of treasury stock to satisfy the tax withholding obligations in connection with equity-based compensation	\$ —	\$ 996			
Unsettled common stock repurchases	\$ 401	\$ —	\$ 1,379	\$ —	

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

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". Following the consummation of the sale, and for up to three years, the Company is

expected to provide transitional foundry services associated with its fabrication facility located in Gumi, Korea, known as "Fab 3", at an agreed upon cost plus mark-up (the "Transitional Fab 3 Foundry Services").

Basis of Presentation

The accompanying unaudited interim consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP"). These interim consolidated financial statements include normal recurring adjustments and the elimination of all intercompany accounts and transactions which are, in the opinion of management, necessary to provide a fair statement of the Company's financial condition and results of operations for the periods presented. These interim consolidated financial statements are presented in accordance with Accounting Standards Codification ("ASC") 270, "Interim Reporting" and, accordingly, do not include all of the information and note disclosures required by U.S. GAAP for complete financial statements, except for the changes below. The results of operations for the three and six months ended March 31, 2023 and June 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 three and six months ended March 31, 2023 and June 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 March 31, 2023 and December 31, 2022 consist of the following (in thousands):

	March 31, 2023	December 31, 2022	June 30, 2023	December 31, 2022
Finished goods	\$ 5,523	\$ 6,799	\$ 5,025	\$ 6,799
Semi-finished goods and work-in-process	39,427	40,265	35,379	40,265
Raw materials	6,351	7,460	6,664	7,460
Materials in-transit	—	36	14	36
Less: inventory reserve	(14,941)	(14,677)	(14,745)	(14,677)
 Inventories, net	 \$ 36,360	 \$ 39,883	 \$ 32,337	 \$ 39,883

Changes in inventory reserve for the three and six months ended March 31, 2023 and June 30, 2023 and 2022 are as follows (in thousands):

	Three Months Ended		Six Months Ended		Three Months Ended		Six Months Ended	
	March 31, 2023	March 31, 2022			June 30, 2023		June 30, 2022	
Beginning balance	\$ (14,941)	\$ (5,730)			\$ (14,941)	\$ (14,677)	\$ (5,555)	\$ (5,730)
Change in reserve								
Inventory reserve charged to costs of sales	(2,584)	(1,607)	(2,023)	(4,607)	(6,093)	(7,700)		
Sale of previously reserved inventory	1,476	1,452	2,047	3,523	872	2,324		
	(1,108)	(155)						
			24	(1,084)	(5,221)	(5,376)		
Write off	415	211	67	482	84	295		
Translation adjustments	429	119	105	534	486	605		
Ending balance	\$ (14,941)	\$ (5,555)	\$ (14,745)	\$ (14,745)	\$ (10,206)	\$ (10,206)		

3. Property, Plant and Equipment 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 property, plant and equipment as of March 31, 2023 and December 31, 2022 are comprised of the following (in thousands):

	March 31, 2023	December 31, 2022
Buildings and related structures	\$ 24,214	\$ 24,780
Machinery and equipment	134,843	137,666
Finance lease right-of-use assets	707	389
Others	33,529	33,890
	<hr/> 193,293	<hr/> 196,725
Less: accumulated depreciation	(102,768)	(101,502)
Land	12,670	13,034
Construction in progress	1,373	2,490
Property, plant and equipment, net	<hr/> \$ 104,568	<hr/> \$ 110,747

Aggregate depreciation expenses totaled \$4,193 thousand and \$3,706 thousand for the three months ended March 31, 2023 and 2022, respectively.

4. Intangible Assets

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

	March 31, 2023		
	Gross amount	Accumulated amortization	Net amount
Intellectual property assets	\$ 8,916	\$ (7,132)	\$ 1,784
Intangible assets	<hr/> \$ 8,916	<hr/> \$ (7,132)	<hr/> \$ 1,784

	June 30, 2023		December 31, 2022
	Gross amount	Accumulated amortization	Net amount
Buildings and related structures	\$ 24,048	\$ 24,780	\$ 24,780
Machinery and equipment	134,806	137,666	137,666
Finance lease right-of-use assets	702	389	389
Others	33,689	33,890	33,890
	<hr/> 193,245	<hr/> 196,725	<hr/> 196,725
Less: accumulated depreciation	(105,929)	(101,502)	(101,502)
Land	12,583	13,034	13,034
Construction in progress	1,168	2,490	2,490
Property, plant and equipment, net	<hr/> \$ 101,067	<hr/> \$ 110,747	<hr/> \$ 110,747

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

Aggregate amortization depreciation expenses for intangible assets totaled \$164 \$8,183 thousand and \$185 \$7,239 thousand for the three six months ended March 31, 2023 June 30, 2023 and 2022, respectively.

4. Intangible Assets

5. Leases

The Company has operating and finance leases for buildings and other intangible assets such as vehicles and office equipment. The Company's leases have remaining lease terms ranging from 1 year to 5 years.

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

Supplemental balance sheets information related to leases as of March 31, 2023 and December 31, 2022 are as follows (in thousands):

Leases	Classification	March 31,	December 31,
		2023	2022
Assets			
Operating lease	Operating lease right-of-use assets	\$ 5,413	\$ 5,265
Finance lease	Property, plant and equipment, net	436	143
Total lease assets		<u>\$ 5,849</u>	<u>\$ 5,408</u>
Liabilities			
Current			
Operating	Operating lease liabilities	\$ 1,622	\$ 1,397
Finance	Other current liabilities	90	90
Non-current			
Operating	Non-current operating lease liabilities	3,996	4,091
Finance	Other non-current liabilities	364	63
Total lease liabilities		<u>\$ 6,072</u>	<u>\$ 5,641</u>

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

	March 31, 2023	December 31, 2022
Weighted average remaining lease term		
Operating leases	3.4 years	3.7 years
Finance leases	4.1 years	2.4 years
Weighted average discount rate		
Operating leases	6.6 %	6.6 %
Finance leases	7.7 %	7.6 %

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

	Three Months Ended	
	March 31, 2023	March 31, 2022
Operating lease cost	\$ 555	\$ 569
Finance lease cost		
Amortization of right-of-use assets	32	16
Interest on lease liabilities	7	2
Total lease cost	<u>\$ 594</u>	<u>\$ 587</u>

The above table does not include an immaterial cost of short-term leases for the three months ended March 31, 2023 and 2022.

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Other lease information is as follows (in thousands):

	Three Months Ended	
	March 31, 2023	March 31, 2022
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	\$ 567	\$ 569
Operating cash flows from finance leases	7	2
Financing cash flows from finance leases	24	16

The aggregate future lease payments for operating and finance leases as of March 31, 2023 are as follows (in thousands):

	Operating Leases	Finance Leases
Remainder of 2023	\$ 1,448	\$ 91
2024	1,925	122
2025	1,419	121
2026	937	108
2027	644	95
Total future lease payments	6,373	537
Less: Imputed interest	(755)	(83)
Present value of future payments	\$ 5,618	\$ 454

6. Accrued Expenses

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

	March 31, 2023	December 31, 2022
Payroll, benefits and related taxes, excluding severance benefits	\$ 14,475	\$ 7,620
Withholding tax attributable to intercompany interest income	473	43
Outside service fees	1,625	1,642
Others	552	383
Accrued expenses	\$ 17,125	\$ 9,688

	June 30, 2023		
	Gross amount	Accumulated amortization	Net amount
Intellectual property assets	\$ 8,923	\$ (7,217)	\$ 1,706
Intangible assets	\$ 8,923	\$ (7,217)	\$ 1,706

	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

Payroll, benefits Aggregate amortization expenses for intangible assets totaled \$319 thousand and related taxes payable \$363 thousand for the six months ended June 30, 2023 and 2022, respectively.

5. Accrued Expenses

Accrued expenses as of March 31, 2023 in June 30, 2023 and December 31, 2022 are comprised of the table above includes termination related charges under the voluntary resignation program (the "Program") of \$8,449 thousand, which are expected to be paid in the second quarter of 2023.

See "Note 10. Early Termination Charges" for more information regarding the Program.

following (in thousands):

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	June 30, 2023	December 31, 2022
Payroll, benefits and related taxes, excluding severance benefits	\$ 7,210	\$ 7,620
Withholding tax attributable to intercompany interest income	886	43
Outside service fees	1,522	1,642
Others	838	383
Accrued expenses	\$ 10,456	\$ 9,688

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7.6. 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 **March 31, 2023** **June 30, 2023** are as follows (in thousands):

Date of transaction	Total notional amount	Month of settlement	Total notional amount	Month of settlement
January 04, 2022	\$ 15,000	April 2023 to June 2023		
March 07, 2022	\$ 24,000	July 2023 to December 2023	\$ 24,000	July 2023 to December 2023
April 27, 2022	\$ 33,000	April 2023 to December 2023	\$ 24,000	July 2023 to December 2023
March 08, 2023	\$ 18,000	July 2023 to December 2023	\$ 18,000	July 2023 to December 2023
April 03, 2023			\$ 23,000	December 2023 to June 2024

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

Derivatives designated as hedging instruments: **March 31, 2023** **December 31, 2022** **June 30, 2023** **December 31, 2022**

Asset Derivatives: The fair values of the Company's outstanding zero cost collar contracts recorded as assets and liabilities as of **March 31, 2023** **June 30, 2023** and **December 31, 2022** are as follows (in thousands):

Liability Derivatives: **Zero cost collars** **Other current liabilities** **\$ 2,641** **\$ 2,015** **Other current liabilities** **\$ 1,776** **\$ 2,015**

Offsetting of derivative assets and liabilities as of **March 31, 2023** **June 30, 2023** is as follows (in thousands):

As of March 31, 2023	Gross amounts of recognized assets/liabilities		Net amounts of assets/liabilities presented in the balance sheets	
	Assets/liabilities	Gross amounts offset in the balance sheets	Assets/liabilities	Assets/liabilities presented in the balance sheets
Asset Derivatives:				
Zero cost collars	\$ 2		—	\$ 2
As of June 30, 2023				
Liability Derivatives:				
Zero cost collars	\$ 2,641		—	\$ 2,641

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

As of December 31, 2022	Gross amounts of recognized liabilities		Net amounts of liabilities presented in the balance sheets	
	Gross amounts of recognized liabilities	Gross amounts offset in the balance sheets	Net amounts of liabilities	Net amounts of liabilities presented in the balance sheets
Liability Derivatives:				
Zero cost collars	\$ 2,015		—	\$ 2,015

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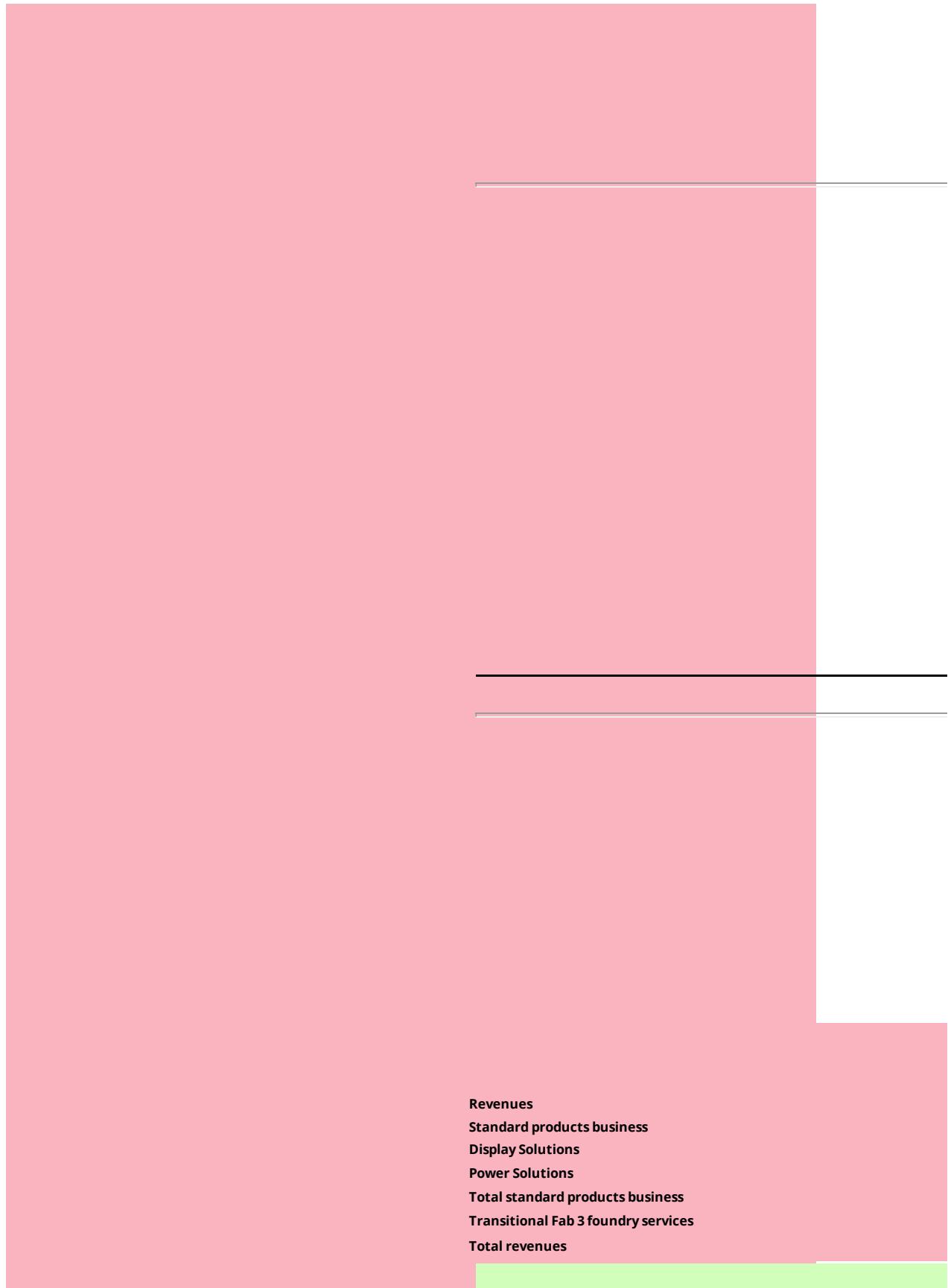
13

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.

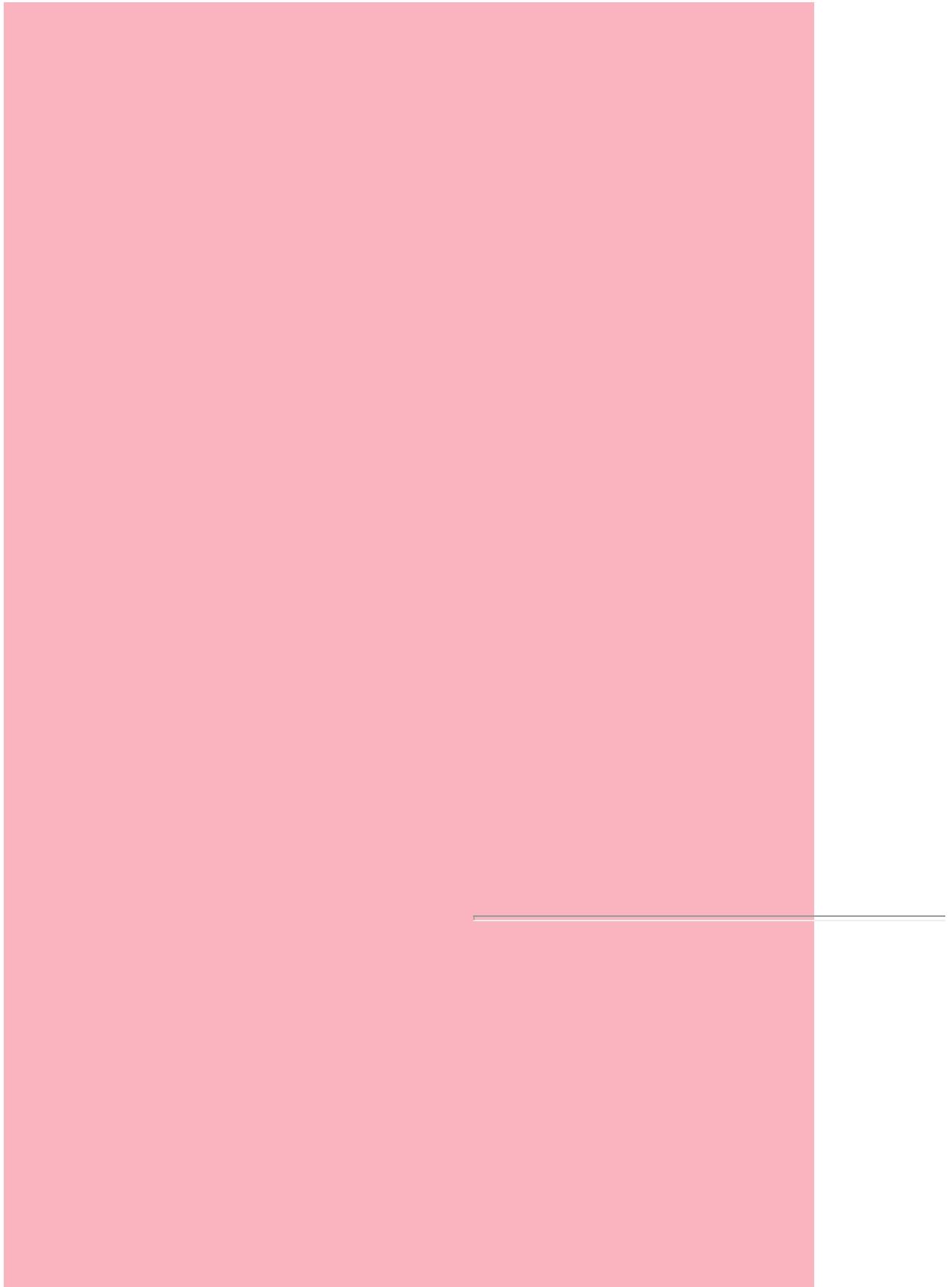
The following table summarizes the impact of derivative instruments on the consolidated statements of operations for the three months ended **March 31, 2023** **June 30, 2023** and **2022** (in thousands):

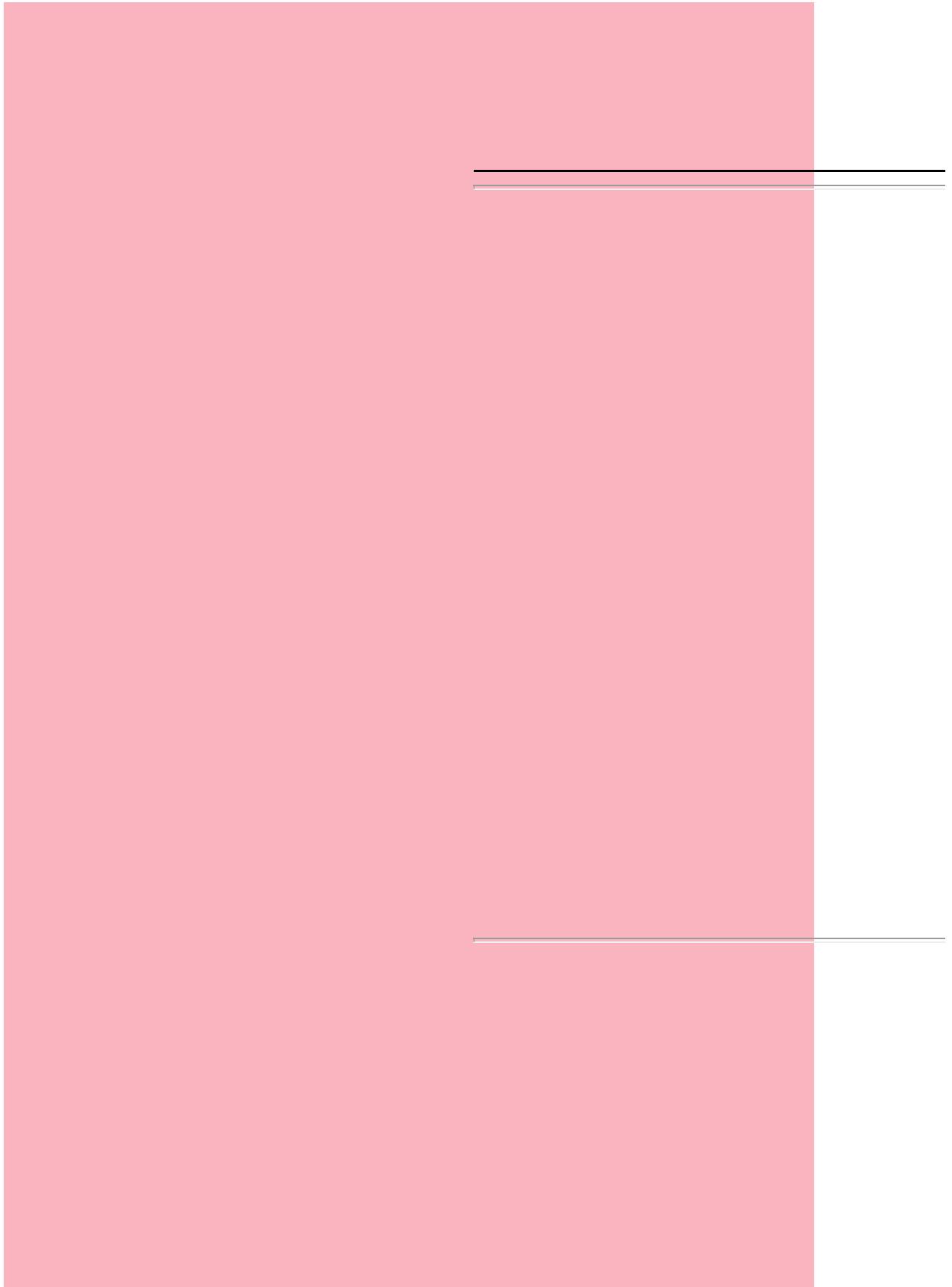
Derivatives in ASC	Amount of Loss	Location/Amount of
--------------------	----------------	--------------------

<u>815 Cash Flow Hedging Relationships</u>	<u>Recognized in AOCI on Derivatives</u>	<u>Loss Reclassified from AOCI Into Statement of Operations</u>	<u>Derivatives in ASC 815 Cash Flow Hedging Relationships</u>
			Zero cost collars
			Zero cost collars
			Derivatives in ASC 815 Cash Flow Hedging Relationships
			Zero cost collars
			The Company set aside cash deposit to the counterparty, Standard Chartered Bank
			<u>Counterparty</u>
	SC		SC
	Total		Total
			The Company is required to deposit additional cash collateral with Nomura Financial
			These zero cost collar contracts may be terminated by the counterparties if the C
			<u>Carrying Value December 31, 2022</u>
		Liabilities:	Liabilities:
		Derivative liabilities (other current liabilities)	\$ 2,015 \$
		Liabilities:	Liabilities:
		Derivative liabilities (other current liabilities)	









Derivative contracts 0

In April 2023, the Company and SC entered into derivative contract of zero

In April 2023, the Company and NFIK entered into derivative contracts of zero

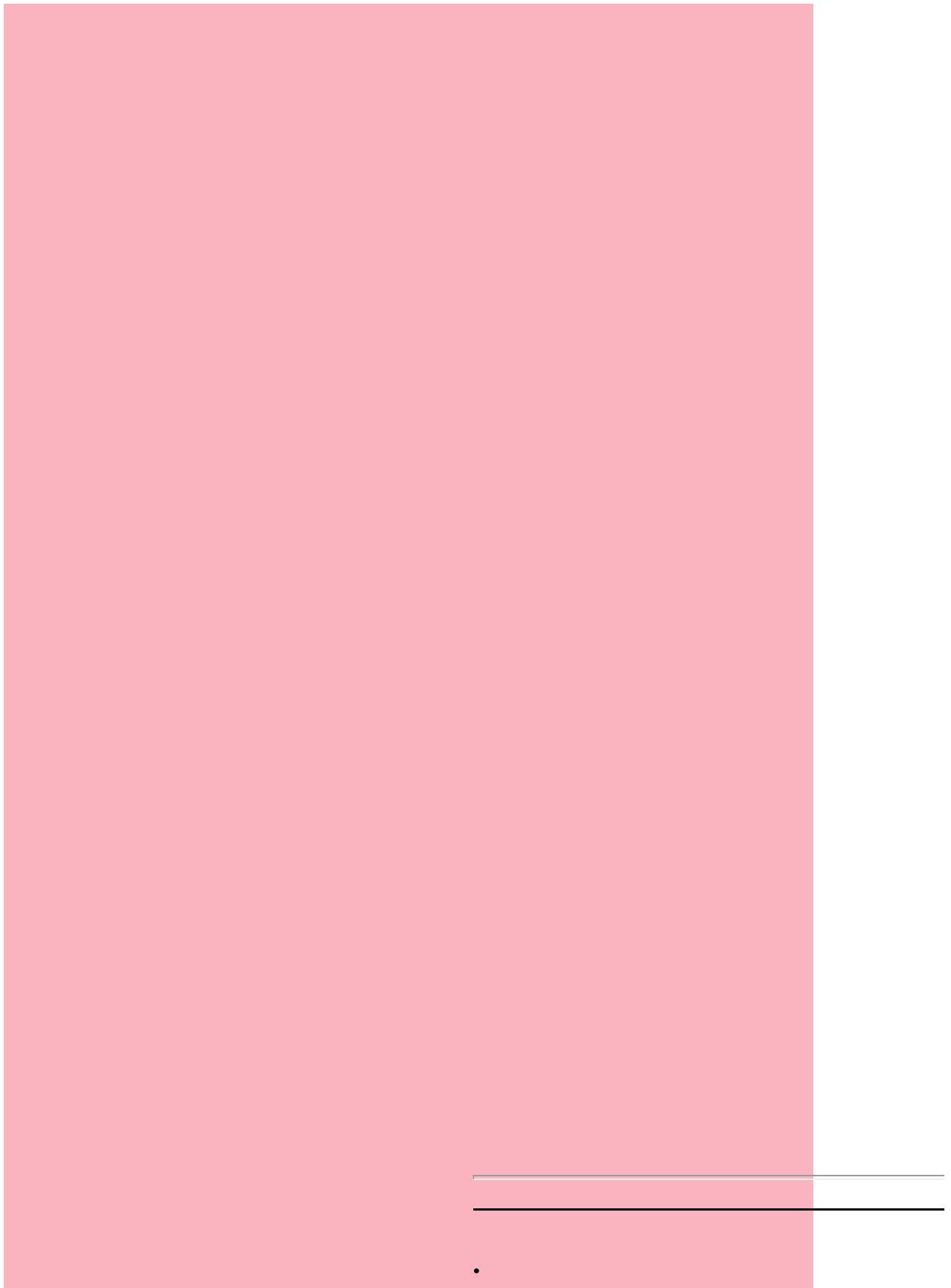
All forward-looking statements speak only as of the date of this report. We do not

Statements made in this Report, unless the context otherwise requires, that incl

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Net income (loss)

Adjustments:

Equity-based compensation expense(a)

Foreign currency loss (gain), net(b)

Derivative valuation loss (gain), net(c)

Early termination and other charges(d)

Income tax effect on non-GAAP adjustments(e)

Adjusted Net Income (Loss)

Reported earnings (loss) per share – basic

Reported earnings (loss) per share – diluted

Weighted average number of shares – basic

Weighted average number of shares – diluted

Adjusted earnings (loss) per share – basic

Adjusted earnings (loss) per share – diluted

Weighted average number of shares – basic

Weighted average number of shares – diluted

Net Income (Loss)

Adjustments:

Equity-based compensation expense(a)

Foreign currency loss, net(b)

Derivative valuation loss, net(c)

Early termination charges(d)

Income tax effect on non-GAAP adjustments(e)

Adjusted Net Income (Loss)

Reported earnings (loss) per share—basic

Reported earnings (loss) per share—diluted

Weighted average number of shares—basic

Weighted average number of shares—diluted

Adjusted earnings (loss) per share—basic

Adjusted earnings (loss) per share—diluted

Weighted average number of shares—basic

Weighted average number of shares—diluted

(a)

(b)

(c)

(d)

(e)

-
- Adjusted Net Income (Loss) does not reflect changes in, or cash requirements:
-
- Adjusted Net Income (Loss) does not consider the potentially dilutive impact
-
- Adjusted Net Income (Loss) does not reflect the costs of holding certain asset
-
- other companies in our industry may calculate Adjusted Net Income (Loss) di

Factors Affecting Our Results of Operations

Results of Operations – Comparison of Three Months Ended March 31, 202

Revenues

Net sales – standard products business

Net sales – transitional Fab 3 foundry services

Total revenues

Cost of sales

Cost of sales – standard products business

Cost of sales – transitional Fab 3 foundry services

Total cost of sales

Gross profit

Selling, general and administrative expenses

Research and development expenses

Other charges

Operating income (loss)

Interest income

Interest expense

Foreign currency gain (loss), net

Others, net

Loss before income tax expense

Income tax benefit

Net loss



Revenues

Net sales – standard products business
Display Solutions
Power Solutions
Total standard products business
Net sales – transitional Fab 3 foundry services
Total revenues

Gross Profit

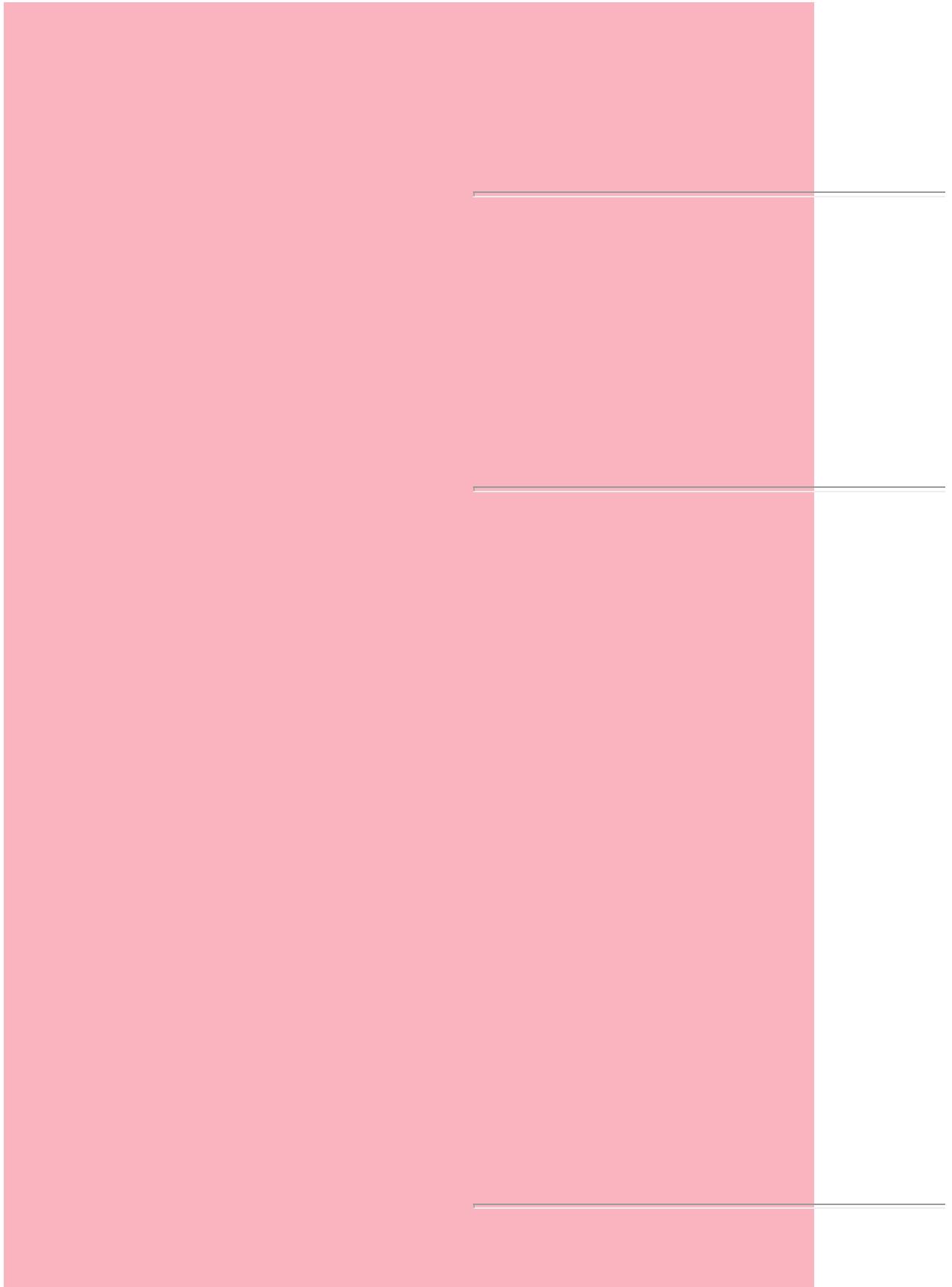
Gross profit – standard products business
Gross profit – transitional Fab 3 foundry services
Total gross profit

Revenues**Gross Profit****Net Sales – Standard Products Business by Geographic Region**

Korea
Asia Pacific (other than Korea)
United States
Europe







Liquidity and Capital Resources

Working Capital

Cash Flows from Operating Activities

Cash Flows from Investing Activities

Cash Flows from Financing Activities

Capital Expenditures

Critical Accounting Policies and Estimates

Item 3.

Foreign Currency Exposures

Item 4.

Evaluation of Disclosure Controls and Procedures

Changes in Internal Control Over Financial Reporting

Item 1.

Item 1A.

Expanded trade restrictions imposed by Korea may further restrict our ability to sell products in Korea.



Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant

Dated: August 8, 2023

Dated: May 8, 2023

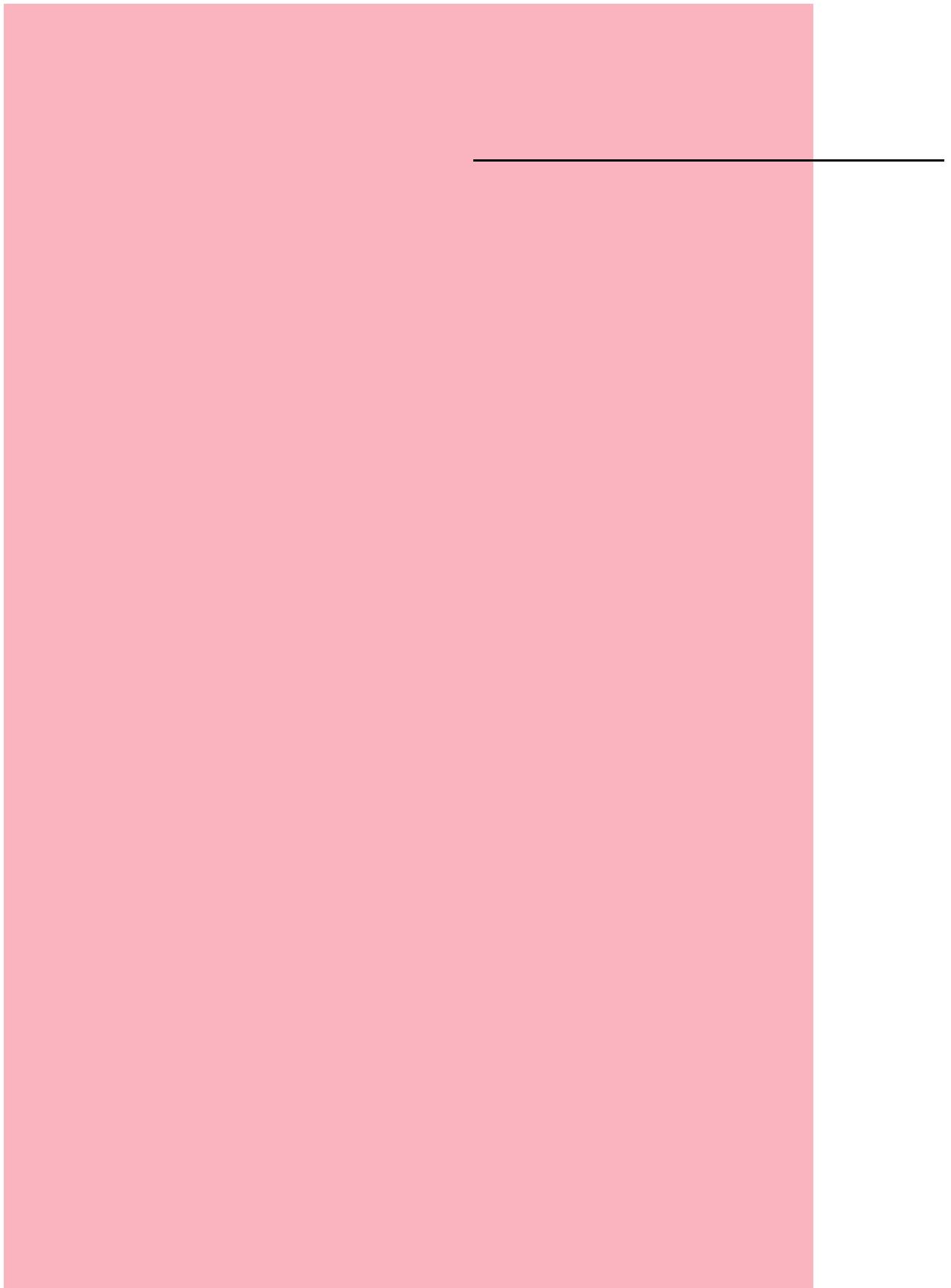
Dated: August 8, 2023

I, Young-Joon Kim, certify that:

I, Young-Joon Kim, Shin Young Park, certify that:

Dated: May 8, 2023 August 8, 2023

Dated: May 8, 2023
Dated: August 8, 2023



DISCLAIMER

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