ALPHA & OMEGA SEMICONDUCTOR Ltd
Form 6-K
May 12, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13a-16 OR 15d-16 UNDER

THE SECURITIES EXCHANGE ACT OF 1934

FOR THE MONTH OF MAY 2011

001-34717

(Commission File Number)

Alpha and Omega Semiconductor Limited

(Translation of registrant s name into English)

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

(Address of principal registered office)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F:

Form 20-F x Form 40-F ¨

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ¨

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ¨

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934:

Yes ¨ No x

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): N/A

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report includes forward-looking statements that relate to future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to differ materially from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. Words such as, but not limited to, believe, expect, predict, anticipate, estimate, intend, plan, targets, likely, will, may, should, would, c or phrases identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. Forward-looking statements include, but are not limited to, statements about:

- anticipated trends and challenges in our business and the markets in which we operate;
- our ability to anticipate market needs or develop new or enhanced products to meet those needs;
- our ability to integrate our expertise in developing power semiconductors;
- our ability to maintain relationships with third-party foundries and subcontractors;
- our ability to compete in our industry;
- our expectation relating to capital expenditure and manufacturing costs;
- our ability to defend ourselves in intellectual property infringement lawsuits against us and protect our confidential information and intellectual property rights;
- our ability to successfully identify and manage any potential acquisitions;
- our investment in our in-house packaging and testing facility;
- our ability to build and maintain relationships and achieve additional design wins with leading original design manufacturers, or ODMs and original equipment manufacturers, or OEMs;
- our expectations regarding the use of proceeds from our initial public offering;
- our ability to retain senior management and key personnel and recruit qualified engineers and other skilled employees;
- our ability to manage growth; and
- economic and business conditions in China.

All forward-looking statements involve risks, assumptions and uncertainties. The occurrence of the events described, and the achievement of the expected results, depend on many factors, some or all of which are not predictable or within our control. Actual results may differ materially from expected results. For a more complete discussion of these risks, assumptions and uncertainties and for other risks and uncertainties, see our filings with the Securities and Exchange Commission, including the section titled Risk Factors contained in the annual report on Form 20-F. These risks, assumptions and uncertainties are not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any of our forward-looking statements. Other unknown or unpredictable factors also could harm our results.

Alpha and Omega Semiconductor Limited

Interim Financial Report

Fiscal Third Quarter Ended March 31, 2011

ALPHA AND OMEGA SEMICONDUCTOR LIMITED

CONSOLIDATED BALANCE SHEETS

(in thousands)

(unaudited)

	Note	March 31, 2011	June 30, 2010
ASSETS			
Noncurrent assets:			
Property, plant and equipment	6	$ 115,896	$ 44,163
Intangible assets	7	4,069	3,820
Investment in an associate	8		25,693
Deferred income tax assets	16	10,866	2,296
Other noncurrent assets	9	5,474	458
Total noncurrent assets		136,305	76,430
Current assets:			
Inventories	11	53,652	28,315
Trade receivables	10	39,647	30,639
Other current assets		3,898	3,075
Restricted cash		79	707
Cash and cash equivalents	15	112,253	119,001
Total current assets		209,529	181,737
Total assets		$ 345,834	$ 258,167
EQUITY			
Capital and reserves			
Share capital	12	$ 49	$ 44
Share premium	12	129,512	103,803
Other reserves		22,537	17,946
Retained earnings		96,453	67,603
Total equity		248,551	189,396
LIABILITIES			
Noncurrent liabilities:			
Deferred income tax liabilities	16	35	25
Deferred rent		901	670
Finance lease liabilities	13	130	436
Total noncurrent liabilities		1,066	1,131
Current liabilities:			
Trade and other payables	17	73,421	47,584
Current income tax liabilities	21	6,522	3,917
Borrowings	14	13,245	3,680
Trade and other payable to an associate	26		10,100
Finance lease liabilities	13	449	571
Provisions	18	2,580	1,788

Total current liabilities	96,217	67,640
Total liabilities	97,283	68,771
Total equity and liabilities	$ 345,834	$ 258,167

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

ALPHA AND OMEGA SEMICONDUCTOR LIMITED

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)

(unaudited)

		Three Months Ended March 31,		Nine Months Ended March 31,	
	Note	2011	2010	2011	2010
Revenue	5	$ 91,074	$ 77,672	$ 264,473	$ 216,371
Cost of goods sold	19,20	63,029	56,845	188,159	158,730
Gross profit	19,20	28,045	20,827	76,314	57,641
Research and development expenses	19,20	7,609	5,447	20,541	15,040
Selling, general and administrative expenses	19,20	9,556	6,093	27,892	17,597
Total operating expenses		17,165	11,540	48,433	32,637
Operating profit		10,880	9,287	27,881	25,004
Finance income		60	11	141	30
Finance cost		(78)	(31)	(187)	(162)
Finance income (cost), net		(18)	(20)	(46)	(132)
Gain on equity interest	25			998	
Share of profit of an associate	8		815	1,984	4,914
Profit before income tax		10,862	10,082	30,817	29,786
Income tax expense	21	839	494	1,967	1,140
Net profit for the period		$ 10,023	$ 9,588	$ 28,850	$ 28,646
Earnings per share					
Basic	22	$ 0.41	$ 1.20	$ 1.25	$ 3.60
Diluted	22	$ 0.39	$ 0.47	$ 1.17	$ 1.42
Weighted-average number of shares used in computing earnings per share					
Basic shares	22	24,372	7,970	23,155	7,949
Diluted shares	22	25,887	20,601	24,673	20,180

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

ALPHA AND OMEGA SEMICONDUCTOR LIMITED

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(unaudited)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2011	**2010**	**2011**	**2010**
Net profit	$ 10,023	$ 9,588	$ 28,850	$ 28,646
Other comprehensive income				
Currency translation differences	41	8	240	34
Total comprehensive income	$ 10,064	$ 9,596	$ 29,090	$ 28,680

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

ALPHA AND OMEGA SEMICONDUCTOR LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in thousands)

(unaudited)

	Share Capital and Share Premium	Other Reserves: Share-Based Payment Reserve	Other Reserves: Translation Differences	Retained Earnings	Total
Balance at June 30, 2009	$ 50,296	$ 13,925	$ 566	$ 30,012	$ 94,799
Currency translation differences			34		34
Profit for the period				28,646	28,646
Share-based compensation expense		1,898			1,898
Proceeds from exercise of share options	98				98
Balance at March 31, 2010	$ 50,394	$ 15,823	$ 600	$ 58,658	$ 125,475
Balance at June 30, 2010	$ 103,847	$ 17,369	$ 577	$ 67,603	$ 189,396
Currency translation differences			240		240
Profit for the period				28,850	28,850
IPO issuance costs	(117)				(117)
Common shares issued for APM acquisition	23,066				23,066
Proceeds from Employee Share Purchase Plan	840				840
Share-based compensation expense		4,351			4,351
Proceeds from exercise of share options	1,925				1,925
Balance at March 31, 2011	$ 129,561	$ 21,720	$ 817	$ 96,453	$ 248,551

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

ALPHA AND OMEGA SEMICONDUCTOR LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

		Nine Months Ended March 31,	
	Note	**2011**	**2010**
Cash flows from operating activities			
Cash generated from operations	23	$ 38,669	$ 23,604
Interest paid		(187)	(162)
Income tax paid		(1,149)	(1,152)
Net cash generated from operating activities		37,333	22,290
Cash flows from investing activities			
APM Acquisition, net of cash acquired	25	(1,569)	
Increase equity interest in APM	8	(1,831)	
Deposit for manufacturing capacity	9	(5,000)	
Purchase of property, plant and equipment	6	(36,195)	(9,147)
Purchases of intangible assets	7	(84)	(30)
Restricted cash released		628	
Net cash used in investing activities		(44,051)	(9,177)
Cash flows from financing activities			
Proceeds from Employee Share Purchase Plan	12	840	
Proceeds from exercise of share options	12	1,908	98
Proceeds from borrowings	14	22,253	
Repayment of borrowings	14	(24,034)	(13,856)
Payments of IPO related costs		(610)	(1,269)
Principal payment on finance leases	13	(428)	(264)
Net cash used in financing activities		(71)	(15,291)
Net decrease in cash and cash equivalents		(6,789)	(2,178)
Cash and cash equivalents at beginning of period		119,001	60,416
Exchange gains on cash and cash equivalents		41	14
Cash and cash equivalents at end of period		$ 112,253	$ 58,252
Supplemental cash flow disclosures:			
Increase (decrease) of property, plant and equipment included in trade and other payable		($ 5,180)	$ 1,606
Capitalized IPO costs included in trade and other payables			$ 1,189
Prepayments for purchase of property, plant and equipment		$ 911	
Issuance of common shares for APM Acquisition		$ 23,066	

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

ALPHA AND OMEGA SEMICONDUCTOR LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 1 THE COMPANY:

Alpha and Omega Semiconductor Limited and its subsidiaries (the Company) design, develop and supply a broad range of analog semiconductors, specializing in power semiconductors. The Company conducts its operations primarily in the United States of America (USA), Hong Kong, Macau, China, Taiwan, Korea, Japan. As disclosed in Note 25 to the consolidated financial statements, on December 3, 2010, the Company acquired control of Agape Package Manufacturing Ltd. (APM) in a cash and stock transaction with a purchase price of $40,045,000 (the APM Acquisition). The Company had a 43% equity interest in APM prior to the acquisition, which was accounted for under the equity method of accounting. After the acquisition, APM became a wholly owned subsidiary of the Company.

Alpha and Omega Semiconductor Limited was incorporated in Bermuda on September 27, 2000 as an exempted limited liability company. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

The unaudited consolidated financial statements for the three and nine months ended March 31, 2011 were authorized for the issuance by an officer of the Company, pursuant to authority granted by the audit committee of the Board of Directors, on May 11, 2011.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies applied are consistent with those of the annual financial statements for the year ended June 30, 2010, as described in those annual financial statements, except as described in Note 4 to the consolidated financial statements. The consolidated financial statements are presented in the United States dollars (U.S. dollars).

Basis of Preparation

This consolidated interim financial information for the three and nine months ended March 31, 2011 has been prepared in accordance with IAS 34, Interim financial reporting . The consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended June 30, 2010, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

In the opinion of management, the unaudited interim consolidated financial statements have been prepared in accordance with IAS 34 and include all adjustments, consisting only of normal and recurring adjustments, necessary for the fair statement of the Company s financial statements. The results of the three and nine months ended March 31, 2011 are not necessarily indicative of the results to be expected for the fiscal year ending June 30, 2011.

The preparation of consolidated financial statements in conformity with IAS 34 requires the use of accounting estimates. It also requires management to exercise judgment in the process of applying the Company s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial information are disclosed in Note 4 to the consolidated financial statements.

Change in an Accounting Estimate

During the nine months ended March 31, 2011, upon the APM acquisition, the Company performed a review and assessment of the useful lives of the Company s property, plant and equipment. Based on the results of management s review, the Company revised the estimated useful life of its manufacturing and facility equipment for depreciation purposes from 5 years to 8 years starting from December 1, 2010 on a prospective basis. The effect of this change was to decrease depreciation expense by $2,166,000 and $2,927,000, increase net income by $1,677,000 and $2,253,000, net of tax effect, and increase basic earnings per share by $0.07 and $0.10 and diluted earnings per share by $0.06 and $0.09 for the three and nine months ended March 31, 2011, respectively. The effect of this change is expected to decrease depreciation expense by approximately $2,166,000 for the three months ending June 30, 2011 and approximately $5,093,000 for the fiscal year ending June 30, 2011.

ALPHA AND OMEGA SEMICONDUCTOR LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(UNAUDITED)

New standards, amendments and interpretations effective

We had considered the impact of new standards, amendments and interpretations that were effective for financial years beginning on and after July 1, 2010 and the adoption of these new standards, amendments and interpretations did not have a material impact to the Company s consolidated financial statements.

New standards, amendments and interpretations that are not yet effective and have not been early adopted by the Company

IFRS 9, Financial instruments , issued in December 2009. It addresses the classification and measurement of financial assets. IFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognized directly in profit or loss. The standard is effective for financial years beginning on or after January 1, 2013 but is available for early adoption. The Company has not yet assessed IFRS 9 s full impact but does not believe that it will have a material impact to the Company s consolidated financial statements.

Revised IAS 24, Related party disclosures , issued in November 2009. It supersedes IAS 24, Related party disclosures , issued in 2003. The revision simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition and provides a partial exemption from the disclosure requirements for government-related entities. The revised IAS 24 is required to be applied for financial years beginning on or after January 1, 2011. Earlier application, in whole or in part, is permitted. The Company has not yet assessed the revised IAS 24 s full impact but does not believe that it will have a material impact to the Company s consolidated financial statements.

ALPHA AND OMEGA SEMICONDUCTOR LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(UNAUDITED)

NOTE 3 FINANCIAL RISK MANAGEMENT:

Summarized below are individual customers whose revenue or trade receivable balances were 10% or higher of the respective total consolidated amounts:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2011	2010	2011	2010
Percentage of revenue				
Customer A	26.9%	30.7%	31.4%	33.1%
Customer B	38.1%	40.0%	35.7%	42.4%
Customer C	12.9%	11.8%	12.3%	9.6%

	As of March 31, 2011	As of June 30, 2010
Percentage of trade receivables		
Customer A	28.5%	56.3%
Customer B	22.2%	8.2%
Customer C	17.4%	20.6%

The Company monitors its capital risk on the basis of the debt-to-equity ratio, which is calculated by dividing its total debt (including borrowings, trade and other payables, current and deferred income tax liabilities, provisions and other noncurrent liabilities as shown in the consolidated balance sheets) by the total shareholders equity.

The debt-to equity ratios are as follows:

(in thousands, except for ratio)	As of March 31, 2011	As of June 30, 2010
Trade and other payables	$ 73,421	$ 47,584
Trade and other payable to an associate		10,100
Provisions	2,580	1,788
Borrowings	13,245	3,680
Current income tax payable	6,522	3,917
Finance lease liabilities	579	1,007
Deferred income tax liabilities	35	25
Deferred Rent	901	670
Total debt	$ 97,283	$ 68,771
Total equity	$ 248,551	$ 189,396
Debt-to-equity ratio	0.4	0.4

ALPHA AND OMEGA SEMICONDUCTOR LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(UNAUDITED)

NOTE 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS:

The preparation of the Company s consolidated financial statements requires the Company to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. On an ongoing basis, the Company evaluates the estimates, judgments and assumptions including those related to revenue recognition, inventory reserve, warranty reserve, income taxes, share-based compensation, estimated useful life for property, plant and equipment and useful life for intangibles.

Revenue Recognition

The Company sells its products primarily to distributors, who in turn sell the products globally to various end customers. The Company s revenue is net of the effect of the estimated stock rotation returns and price adjustments that it expects to provide to certain distributors. Stock rotation returns are governed by contract and are limited to a specified percentage of the monetary value of products purchased by distributors during a specified period. The Company estimates provision for stock rotation returns based on historical returns and individual distributor agreements. The Company also provides special pricing to certain distributors, primarily based on volume, to encourage resale of the Company s products. The Company estimates the expected price adjustments at the time revenue is recognized based on distributor inventory levels, pre-approved future distributor selling prices, distributor margins and demand for its products. If actual stock rotation returns or price adjustments differ from its estimates, adjustments may be recorded in the period when such actual information is known. Provision for price adjustments is recorded as contra trade receivables and provision for stock rotations is recorded as provisions in the consolidated balance sheets.

The Company recognizes packaging and testing services revenue upon shipments of serviced products to customers.

The Company s revenue is subject to seasonality. Typically in the past, the Company has experienced sales peaks two to three months ahead of major holidays such as Christmas and the Lunar New Year. However, this seasonal pattern has been in the past, and may in the future be, changed due to a number of factors, including revenue generated from new products or changes in distributor ordering patterns in response to channel inventory adjustments and end customer demand. For example, this departure from the normal pattern was demonstrated by the strong revenue for the third fiscal quarter ended March 31 of both fiscal years 2010 and 2011, which typically had the lowest quarter revenue in our seasonal pattern. As a result, the Company s revenue and operating results may fluctuate significantly from quarter to quarter.

Inventory Reserves

The Company carries inventories at the lower of cost or market on a first-in first-out basis. The Company records inventory reserves to adjust inventories to net realizable value when it believes that the net realizable value is less than the cost. Inventory reserves are made based on its periodic review of inventory quantities on hand as compared with its sales forecasts, historical usage, aging of inventories, production yield levels and current product selling prices. The Company s sales forecasts may differ from actual results due to changes in market and economic conditions and changes in technologies. The difference between the actual and estimated reserves could have a material effect on the Company s recorded inventory values and cost of goods sold.

Warranty Reserve

The Company provides a standard one-year warranty for the products it sells. The Company accrues for estimated warranty costs at the time revenue is recognized. The Company s warranty obligation is affected by product failure rates, the cost of replacement product, freight costs for failed parts and their replacement and other quality assurance costs. The Company monitors its product returns for warranty claims and maintains a reserve for the related warranty costs based on its historical data and anticipated warranty claims known at the time that the estimate is made. If actual warranty costs differ significantly from estimates, revisions to the estimated warranty reserve would be required and any such adjustments could have a material impact to the Company s consolidated financial statements.

ALPHA AND OMEGA SEMICONDUCTOR LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(UNAUDITED)

Accounting for Income Taxes

The Company is subject to income taxes in a number of jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company establishes accruals for certain tax contingencies based on estimates of whether additional taxes may be due. While the final tax outcome of these matters may differ from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The Company records deferred tax assets if, based on the estimate of future taxable income in a particular jurisdiction, it is probable that the Company will be able to utilize deferred tax assets. The Company s judgments regarding future taxable income may change due to changes in market conditions, tax laws, tax planning strategies or other factors. If the Company s assumptions and consequently the estimates change in the future, the deferred tax assets we have established may increase or decrease, resulting in changes in income tax expense. The Company s effective tax rate is highly dependent upon the geographic distribution of the worldwide earnings or losses, the tax laws and regulations in each geographical region, the availability of tax credits and carry forwards and the effectiveness of tax planning strategies. Income taxes in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

Share-Based Compensation Expense

The Company recognizes share-based compensation expenses based on the estimated fair value of the share award. The fair values of share options and employee share purchase plan shares are determined by the Black-Scholes option pricing model, using the accelerated vesting attribution method. The fair value of the restricted stock unit is calculated based on fair value of its stock on the date of grant. Share-based compensation expense is significant to the consolidated financial statements and is calculated using the Company s best estimates, which involve inherent uncertainties and the application of management s judgment. Significant estimates include fair value of the underlying common shares prior to the initial public offering (the IPO), expected term, share price volatility and forfeiture rates.

The Company establishes the expected term based on the historical data of similar entities data as adjusted for expected changes in future exercise patterns. The Company estimates forfeiture rates based on historical average period of time that options were outstanding and forfeited. The Company estimates expected volatility based on the volatility of similar entities whose shares are publicly available. The risk-free interest rate is based on the U.S. Treasury yields at the time of grant for periods corresponding to the expected term of the options. The expected dividend yield is zero based on the fact that the Company has not historically paid dividends and has no current intention to pay dividends.

Prior to the Company s IPO that became effective on April 28, 2010, the absence of a public market for its common shares required the Company s compensation committee of the board of directors, the members of which the Company believes have extensive business, industry, finance and venture capital experience, to estimate the fair value of the Company s common shares for the purpose of granting options and for determining share-based compensation expense for the periods presented. In response to these requirements, the compensation committee, with input from management, estimated the fair value of the common shares at each meeting when options were granted. The Company commissioned an independent third party to conduct contemporaneous valuations to assist in the determination of the fair value of the common shares, except for the grant of options on March 1, 2010. The exercise price of options granted on March 1, 2010 was determined after considering a preliminary valuation analysis provided to the Company by the representatives of the Company s underwriters, the valuation of the common shares performed by an independent third party at December 31, 2009 and other factors.

ALPHA AND OMEGA SEMICONDUCTOR LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(UNAUDITED)

The Company s contemporaneous valuations, using the AICPA Practice Aid, *Valuation of Privately-Held-Company Equity Securities Issued as Compensation* , employed a two step process to arrive at an estimate of the value of the common shares. The first step of the analysis was to estimate the total enterprise value. The Company primarily relied on an income approach, specifically a discounted cash flow analysis, to estimate the total enterprise value. The discounted cash flow analysis involves applying appropriate risk-adjusted discount rates to estimated cash flows, based on forecasted revenue and costs. The assumptions used in connection with these valuations were based on the Company s expected operating performance over the discrete forecast period. A terminal value was estimated for the value of the business beyond the discrete forecasted earnings period. This value was estimated by applying a multiple to the Company s projections in the final year of the forecast period. The multiple was selected based on the data of a peer group of public companies in the industry. The discrete period cash flows and terminal value were then discounted to the present at the Company s estimated cost of capital, which was developed through an analysis of required returns for companies in a similar stage of development. The results of the income approach were tested for reasonableness based on an analysis of the multiples of similar public companies.

The second step was to allocate our total enterprise value to the preferred and common classes of securities based on the relative rights and preferences of each class. The Company relied on the option pricing method, which treats the securities as call options on the underlying assets (or enterprise value) to allocate the enterprise value. Significant estimates required in the option pricing method include the expected time to liquidity, risk-free interest rate for the expected time to liquidity, expected dividend yield, fair value of the aggregate enterprise value and expected volatility of the underlying enterprise value.

Additionally, the Company considered a probability-weighted expected return method to estimate the value of the common shares. This methodology considers various scenarios of future exit events, including a public offering, sale, liquidation or remaining private. An estimate of future exit periods and events are made and the exit values are allocated to each class of security based on the rights and preferences that would be exercised to maximize the value of each class, based on seniority. The allocated values are then discounted to the present and weighted based on an assessment of the probability of each scenario. Probabilities of each scenario have been assessed by management at each date, based on consideration of then-current market conditions and changes in the underlying prospects of the Company.

The Company also reviewed a variety of factors in determining the deemed fair value of the common shares such as its own operating and financial performance, the introduction of new products, the price of the preferred share financings with third-party investors in arm s length transactions, the lack of a public market for its common shares, industry growth and volume, the performance of similarly situated companies in our industry and stock market indices, emerging trends and issues, trends in consumer confidence and spending, overall economic indicators and the general economic outlook.

Investment in an Associate

Prior to the APM Acquisition, the Company held a 40.3% equity interest in APM at June 30, 2010. The Company made an additional equity investment of $1,830,000 in APM in October 2010 and held a 43% equity interest in APM. APM was considered to be an associate after due consideration of the provisions under IAS 27, *Consolidated and Separate Financial Statements*, IAS 28, *Investments in Associates* and SIC Interpretation 12, *Consolidation Special Purpose Entities* , including criteria such as the level of control or influence over the financial and operating policies of APM, the composition of APM s board of directors, and the existence of any contractual obligation for APM to provide services to, or conduct its activities on behalf of the Company. The investment in APM was accounted for under the equity method of accounting. Upon the APM Acquisition was completed on December 3, 2010, APM became a wholly owned subsidiary of the Company and APM s operating results were fully consolidated in the Company s consolidated financial statements.

ALPHA AND OMEGA SEMICONDUCTOR LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(UNAUDITED)

Estimated Useful Life for Property, Plant and Equipment and for Intangibles

Property, plant and equipment are recorded at cost and are depreciated using the straight-line method over estimated useful lives of the assets. Identified intangibles acquired in a business combination are recognized at fair value at the acquisition date and amortized on a straight-line basis over their estimated economic lives of three to four years. Prior to December 3, 2010, the APM acquisition date, the Company s manufacturing machinery and equipment were depreciated over a useful life of 5 years. Upon the completion of the APM Acquisition, the Company revised the estimated useful life of its manufacturing and facility equipment for depreciation purposes from 5 years to 8 years on a prospective basis.

NOTE 5 SEGMENT INFORMATION

The Company is organized as, and operates in, one operating segment: design, development and marketing of power semiconductor products for computing, consumer electronics, communication and industrial applications. The chief operating decision-maker is the Chief Executive Officer. The financial information presented to the Company s Chief Executive Officer is on a consolidated basis, accompanied by information about revenue by customer and revenue by geographic locations in which the Company operates, for purposes of evaluating financial performance and allocating resources. The Company has one business activity, and there are no segment managers who are held accountable for operations, operating results and plans for products or components below the consolidated unit level. Accordingly, the Company reports as a single operating segment.

The Company is domiciled in Bermuda. Substantially all of the Company s revenue is derived from external customers outside the place of domicile. The Company sells its products primarily to distributors in the Asia Pacific region, who in turn sell these products to end customers. Because the Company s distributors sell their products to end customers which may have global presence, revenue by geographical location are not necessarily representative of the geographical distribution of sales to end user markets. The revenue by geographical location in the following tables are based on the country or region in which the products were shipped to:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2011	2010	2011	2010
	(in thousands)		(in thousands)	
Hong Kong	$ 80,391	$ 75,204	$ 244,863	$ 213,403
Korea	3,402	2,105	7,387	2,303
China	6,000		7,847	
United States	272	212	1,496	320
Other countries	1,009	151	2,880	345
	$ 91,074	$ 77,672	$ 264,473	$ 216,371

ALPHA AND OMEGA SEMICONDUCTOR LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(UNAUDITED)

The following is a summary of revenue by product type:

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010	Nine Months Ended March 31, 2011	Nine Months Ended March 31, 2010
	(in thousands)		(in thousands)	
Power discrete	$ 68,767	$ 66,106	$ 207,417	$ 188,327
Power IC	16,179	11,566	49,081	28,044
Packaging and testing services	6,128		7,975	
	$ 91,074	$ 77,672	$ 264,473	$ 216,371

The following is a summary of noncurrent assets by geographic region where the assets are located:

	As of March 31, 2011	As of June 30, 2010
	(in thousands)	
United States	$ 15,067	$ 5,821
Taiwan	560	473
China	119,596	69,311
The Cayman Islands	887	639
Other countries	195	186
	$ 136,305	$ 76,430

The Company s noncurrent assets located in the Cayman Islands represent patents and exclusive licenses acquired by the Company.

ALPHA AND OMEGA SEMICONDUCTOR LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(UNAUDITED)

NOTE 6 PROPERTY, PLANT AND EQUIPMENT:

	Manufacturing Machinery and Equipment	Equipment and Tooling	Computer Equipment	Office Furniture and Equipment (in thousands)	Leasehold Improvements	Equipment and Construction in Progress	Total
As of July 1, 2009							
Cost	$ 19,679	$ 7,072	$ 4,971	$ 650	$ 7,668	$ 935	$ 40,975
Accumulated depreciation	(3,352)	(4,261)	(3,605)	(411)	(1,092)		(12,721)
Net book amount	$ 16,327	$ 2,811	$ 1,366	$ 239	$ 6,576	$ 935	$ 28,254
For the Nine Months Ended March 31, 2010							
Opening net book amount	$ 16,327	$ 2,811	$ 1,366	$ 239	$ 6,576	$ 935	$ 28,254
Additions (net of transfer)	4,726	859	335	110	330	4,395	10,755
Disposals		(2)					(2)
Depreciation	(3,248)	(902)	(666)	(88)	(617)		(5,521)
Closing net book amount	$ 17,805	$ 2,766	$ 1,035	$ 261	$ 6,289	$ 5,330	$ 33,486
As of March 31, 2010							
Cost	$ 24,405	$ 7,917	$ 5,306	$ 760	$ 7,998	$ 5,330	$ 51,716
Accumulated depreciation	(6,600)	(5,151)	(4,271)	(499)	(1,709)		(18,230)
Net book amount	$ 17,805	$ 2,766	$ 1,035	$ 261	$ 6,289	$ 5,330	$ 33,486

ALPHA AND OMEGA SEMICONDUCTOR LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(UNAUDITED)

	Manufacturing Machinery and Equipment	Equipment and Tooling	Computer Equipment	Office Furniture and Equipment (in thousands)	Leasehold Improvements	Equipment and Construction in Progress	Total
As of July 1, 2010							
Cost	$ 32,417	$ 8,314	$ 5,417	$ 1,080	$ 9,626	$ 7,635	$ 64,489
Accumulated depreciation	(7,894)	(5,454)	(4,471)	(537)	(1,970)		(20,326)
Net book amount	$ 24,523	$ 2,860	$ 946	$ 543	$ 7,656	$ 7,635	$ 44,163
For the Nine Months Ended March 31, 2011							
Opening net book amount	$ 24,523	$ 2,860	$ 946	$ 543	$ 7,656	$ 7,635	$ 44,163
Foreign Exchange differences		(54)	(26)	(17)	(10)		(107)
APM acquisition	44,772	158	134	154	3,260	3,413	51,891
Additions (net of transfer)	19,791	1,078	392	98	2,225	6,520	30,104
Disposal		(41)					(41)
Depreciation	(7,554)	(783)	(487)	(169)	(1,121)		(10,114)
Closing net book amount	$ 81,532	$ 3,218	$ 959	$ 609	$ 12,010	$ 17,568	$ 115,896
As of March 31, 2011							
Cost	$ 96,966	$ 9,192	$ 5,915	$ 1,317	$ 14,794	$ 17,568	$ 145,752
Accumulated depreciation	(15,434)	(5,974)	(4,956)	(708)	(2,784)		(29,856)
Net book amount	$ 81,532	$ 3,218	$ 959	$ 609	$ 12,010	$ 17,568	$ 115,896

Depreciation expense was charged to the consolidated statements of income as follows:

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010	Nine Months Ended March 31, 2011	Nine Months Ended March 31, 2010
	(in thousands)		(in thousands)	
Cost of goods sold	$ 3,981	$ 1,566	$ 8,961	$ 4,436
Research and development expenses	308	255	670	738
Selling, general and administrative expenses	161	100	483	347
	$ 4,450	$ 1,921	$ 10,114	$ 5,521

ALPHA AND OMEGA SEMICONDUCTOR LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(UNAUDITED)

NOTE 7-INTANGIBLE ASSETS:

	Patents and Exclusive Rights	Computer Software	Trade Name (in thousands)	Customer Relationships	Total
As of July 1, 2009					
Cost	$ 1,566	$ 5,594	$	$	$ 7,160
Accumulated amortization	(708)	(1,332)			(2,040)
Net book amount	$ 858	$ 4,262	$	$	$ 5,120
For the Nine Months Ended March 31, 2010					
Opening net book amount	$ 858	$ 4,262	$	$	$ 5,120
Additions		30			30
Amortization charge	(191)	(901)			(1,092)
Closing net book amount	$ 667	$ 3,391	$	$	$ 4,058
As of March 31, 2010					
Cost	$ 1,566	$ 5,624	$	$	$ 7,190
Accumulated amortization	(899)	(2,233)			(3,132)
Net book amount	$ 667	$ 3,391	$	$	$ 4,058
As of July 1, 2010					
Cost	$ 1,566	$ 5,740	$	$	$ 7,306
Accumulated amortization	(950)	(2,536)			(3,486)
Net book amount	$ 616	$ 3,204	$	$	$ 3,820
For the Nine Months Ended March 31, 2011					
Opening net book amount	$ 616	$ 3,204	$	$	$ 3,820
Additions		84	250	1,150	1,484
Disposals		(6)			(6)
Amortization charge	(150)	(955)	(28)	(96)	(1,229)
Closing net book amount	$ 466	$ 2,327	$ 222	$ 1,054	$ 4,069
As of March 31, 2011					
Cost	$ 1,566	$ 5,818	$ 250	$ 1,150	$ 8,784
Accumulated amortization	(1,100)	(3,491)	(28)	(96)	(4,715)
Net book amount	$ 466	$ 2,327	$ 222	$ 1,054	$ 4,069

Trade name and customer relationship were acquired during the nine months ended March 31, 2011 through the APM Acquisition as described in Note 25.

ALPHA AND OMEGA SEMICONDUCTOR LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(UNAUDITED)

Amortization of the Company s intangible assets has been included in the statements of income as follows:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2011	2010	2011	2010
	(in thousands)		(in thousands)	
Cost of goods sold	$	$ 8	$	$ 41
Research and development expenses	164	151	487	452
Selling, general and administrative expenses	299	200	742	599
	$ 463	$ 359	$ 1,229	$ 1,092

NOTE 8 INVESTMENT IN AN ASSOCIATE:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2011	2010	2011	2010
	(in thousands)		(in thousands)	
Beginning of the period	$	$ 23,498	$ 25,693	$ 19,399
Share of profit		815	1,984	4,914
Additional investment made			1,831	
APM Acquisition (Note 25)			(29,508)	
End of the period	$	$ 24,313	$	$ 24,313

NOTE 9 OTHER NONCURRENT ASSETS:

	As of March 31, 2011	As of June 30, 2010
	(in thousands)	
Deposit for manufacturing capacity	$ 5,000	$
Operating leases deposits	474	458
	$ 5,474	$ 458

On October 1, 2010, the Company entered into an agreement with a third-party manufacturer and paid a non-refundable fee of $5,000,000 that provides the Company with the ability in the future to increase its manufacturing capacity.

NOTE 10 TRADE RECEIVABLES:

	As of March 31, 2011	As of June 30, 2010
	(in thousands)	
Net billings	$ 53,698	$ 39,120
Less: Provision for price adjustments	(14,021)	(8,451)
Less: Provision for impairment	(30)	(30)
Trade receivables	$ 39,647	$ 30,639

ALPHA AND OMEGA SEMICONDUCTOR LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(UNAUDITED)

The carrying amounts of trade receivables approximate their fair values due to their short maturity terms, and they are denominated in U.S. dollars.

The following is the aging analysis of net billings which were past due but not impaired. These relate to a number of distributors and non-distributors with no recent history of default.

	As of March 31, 2011	As of June 30, 2010
	(in thousands)	
Past due but not impaired		
1-30 days past due	$ 1,758	$ 1,104
31-60 days past due	396	52
over 61 days past due	566	
	$ 2,720	$ 1,156

Changes in the provision for price adjustments are as follows:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2011	2010	2011	2010
	(in thousands)		(in thousands)	
Beginning of the period	$ 10,941	$ 11,635	$ 8,451	$ 11,002
Provision for the period	20,163	22,029	56,541	67,784
Utilized	(17,083)	(23,731)	(50,971)	(68,853)
End of the period	$ 14,021	$ 9,933	$ 14,021	$ 9,933

NOTE 11 INVENTORIES:

	As of March 31, 2011	As of June 30, 2010
	(in thousands)	
Raw materials	$ 25,267	$ 8,953
Work in progress	20,247	8,949
Finished goods	8,138	10,413
	$ 53,652	$ 28,315

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ALPHA AND OMEGA SEMICONDUCTOR LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(UNAUDITED)

NOTE 12 SHARE CAPITAL AND SHARE PREMIUM:

Common Shares

On March 17, 2010, the shareholders of the Company approved a 2-to-1 reverse share split of the Company s common and preferred shares which became effective on March 17, 2010. All share and per share information included in the accompanying financial statements has been adjusted to reflect this reverse share split.

On April 28, 2010, the Company s initial public offering (the IPO) became effective and closed on May 4, 2010, in which 5,085,985 common shares were sold, including 3,400,000 shares newly issued and 1,685,985 shares sold by the Company s selling shareholders, at the IPO price of $18.00 per share. Gross proceeds received by the Company from the 3,400,000 shares were $61,200,000, and net proceeds were $53,262,000 after deducting $4,284,000 for underwriting discounts and commissions and approximately $3,654,000 for other offering related costs. All of the Company s outstanding preferred shares were automatically converted into common shares and these preferred shares ceased to exist upon the closing of the IPO.

As disclosed in Note 25 to the consolidated financial statements, on December 3, 2010, the Company issued 1,766,159 common shares valued at $13.06 per share as part of the consideration in the APM Acquisition.

The Company s bye-laws, as amended, authorized the Company to issue 50,000,000 common shares with par value of $0.002. Each common share is entitled to one vote. The holders of common shares are also entitled to receive dividends whenever funds are legally available and when and if declared by the Board of Directors, subject to the prior rights of holders of all classes of shares outstanding. No dividends had been declared as of March 31, 2011.

The changes in the Company s issued and fully paid common shares were as follows:

	Number of Shares	Amount of Share Capital	Amount of Share Premium	Total Amount
		(in thousands)		
As of July 1, 2009	7,919	$ 16	$ 89	$ 105
Proceeds from exercise of share options	51		98	98
As of March 31, 2010	7,970	$ 16	$ 187	$ 203
As of July 1, 2010	22,101	$ 44	$ 103,803	$ 103,847
IPO issuance costs			(117)	(117)
Proceeds from Employee Share Purchase Plan	84		840	840
APM acquisition	1,766	4	23,062	23,066
Proceeds from exercise of share options	446	1	1,924	1,925
As of March 31, 2011	24,397	$ 49	$ 129,512	$ 129,561

ALPHA AND OMEGA SEMICONDUCTOR LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(UNAUDITED)

2000 Share Plan

The 2000 Share Plan (the 2000 Plan), as amended, authorized the Board of Directors to grant incentive share options and nonstatutory share options to employees, directors and consultants of the Company for up to 5,425,000 common shares. Under the 2000 Plan, incentive share options and nonstatutory share options are to be granted at a price that is not less than 100% and 85% of the fair value of the common share at the date of grant for employees and consultants, respectively. Options generally vest over a five-year period, 20% on the first anniversary from the grant date and ratably each month over the remaining 48-month period, and are exercisable for a maximum period of ten years after date of grant. Incentive share options granted to shareholders who own more than 10% of the outstanding shares of all classes of shares of the Company at the time of grant must be issued at an exercise price not less than 110% of the fair value of the common shares on the date of grant.

In connection with the adoption of the 2009 Share Option/Share Issuance Plan (2009 Plan) on September 18, 2009, the 2000 Share Plan was terminated and no further awards were granted under the 2000 Share Plan since then.

2009 Share Option/Share Issuance Plan

The 2009 Share Plan (the 2009 Plan), as approved in September 2009 at the annual general meeting of shareholders, and as amended and restated in connection with the Company s IPO, authorized the Board of Directors to grant incentive share options, nonstatutory share options and restricted shares to employees, directors, and consultants of the Company. The Company has initially reserved 1,250,000 common shares under the 2009 Plan. The number of common shares available for issuance under the Plan shall automatically increase in January each calendar year during the term of the Plan, beginning with calendar year 2011, by the lesser of 3% of the total number of common shares outstanding or 750,000 shares. This increase was 729,243 shares for calendar year 2011.

Under the 2009 Plan, incentive share options and restricted stock units are to be granted at a price that is not less than 100% and nonstatutory share options are to be granted not less than 85% of the fair value of the common shares, at the date of grant for employees and consultants. Options and restricted stock units generally vest over a five-year period, 20% on the first anniversary from the grant date and ratably each month over the remaining 48-month period, and are exercisable for a maximum period of ten years after date of grant. Incentive share options granted to shareholders who own more than 10% of the outstanding shares of all classes of shares of the Company at the time of grant must be issued at an exercise price not less than 110% of the fair value of the common shares on the date of grant.

The 2009 Plan is divided into three incentive compensation programs: Discretionary Grant Program, Share Issuance Program and Automatic Grant Program. Under the Discretionary Grant Program, eligible individuals may be granted options to purchase common shares and share appreciation rights tied to the value of the Company s common shares. Under the Share Issuance Program, eligible individuals may be issued common shares pursuant to restricted share awards, restricted share units, performance shares or other share-based awards which vest upon the attainment of pre-established performance milestones or the completion of a designated service period. Under the Automatic Grant Program, eligible non-employee board members will automatically receive options to purchase common shares at designated intervals over their period of continued board service. Each non-employee board members was granted an option to purchase 7,500 common shares on April 28, 2010 equal to the IPO price. On the date of each annual shareholders meeting beginning in 2010, each individual who commences service as a non-employee board member by reason of his or her election to the board at such meeting and each individual who will continue to serve as a non-employee board member will automatically be granted an option to purchase 7,500 common shares.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(UNAUDITED)

A summary of the status of the 2000 Plan and 2009 Plan and changes during the nine months ended March 31, 2011 and 2010 is presented as follows:

	Number of Options Outstanding	Weighted Average Exercise Price
As of June 30, 2009	4,111,292	$ 7.26
Options granted	367,750	10.96
Options exercised	(50,875)	1.92
Options cancelled or forfeited	(201,163)	9.91
As of March 31, 2010	4,227,004	$ 7.52
As of June 30, 2010	4,733,133	$ 8.70
Options granted	394,000	12.82
Options exercised	(445,901)	4.28
Options cancelled or forfeited	(127,061)	11.73
As of March 31, 2011	4,554,171	$ 9.41

The weighted average fair values of the options granted on the date of grant were $6.70 and $5.25 during the nine months ended March 31, 2011 and 2010, respectively. They were determined using the Black-Scholes option pricing model. The significant inputs into the model were as follows:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2011	2010	2011	2010
Fair value of common shares at grant dates	$12.68-$13.83	$15.00	$10.22-$13.83	$8.40 - $15.00
Exercise price	$12.68-$13.83	$15.00	$10.22-$13.83	$8.40 - $15.00
Volatility rate	48% - 49%	51%	48% - 49%	49% - 51%
Risk-free interest rate	2.1% - 2.4%	2.3%	1.0% - 2.4%	2.2% - 2.6%
Expected option life	5.5 years	5.5 years	5.5 years	5.5 years
Dividend yield	0%	0%	0%	0%

Restricted Stock Unit Activity

A summary of the restricted stock unit activities under the 2009 Plan and changes during the nine months ended March 31, 2011 is presented as follows:

	Restricted Stock Units	Weighted Average Grant Date Fair Value Per	Weighted Average Remaining Recognition Period

			Share	(Years)
Outstanding at July 1, 2010				
Awards granted	210,500	$	12.33	4.68
Awards forfeited	(12,700)			
Outstanding at March 31, 2011	197,800	$	12.33	4.68

The estimated fair value of restricted stock units is based on the market price of the Company s stock on the grant date.

ALPHA AND OMEGA SEMICONDUCTOR LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(UNAUDITED)

Employee Share Purchase Plan (the ESPP)

The Employee Share Purchase Plan (Purchase Plan or ESPP) was established in May 2010 upon the completion of the Company s IPO. The Purchase Plan provided for a series of overlapping offering periods with a duration of 24 months, with new offering periods, except the first offering period, which commenced on April 28, 2010, generally beginning on May 15 and November 15 of each year. The Purchase Plan allows employees to purchase common shares through payroll deductions of up to 15% of their eligible compensation. Such deductions will accumulate over a six-month accumulation period without interest. After such accumulation period, common shares will be purchased at a price equal to 85% of the fair market value per share on either the first day the offering period or the last date of the accumulation period, whichever is less. No participant may purchase more than $25,000 worth of common stock in any one calendar year period.

The Company has initially reserved 600,000 common shares for issuance under the ESPP. The share reserve will automatically increase in January of each calendar year during the term of the ESPP, beginning with calendar year 2011, by the lesser of 0.75% of the outstanding common shares or 250,000 shares. This increase was 182,311 shares for calendar year 2011.

The ESPP is compensatory and results in compensation expense. The fair values of common shares to be issued under the ESPP were determined using the Black-Scholes pricing model. The significant inputs into the model were as follows:

	Nine Months Ended March 31, 2011
Volatility rate	50%
Risk-free interest rate	0.2% - 1.0%
Expected term	1.3 years
Dividend yield	0%

The total share-based compensation expense, including share options, the ESPP and restricted stock units described above, recognized in the consolidated statement of income for the three and nine months ended March 31, 2011 and 2010 are as follows:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2011	2010	2011	2010
	(in thousands)			
Cost of goods sold	$ 126	$ 81	$ 399	$ 133
Research and development expenses	420	193	1,202	596
Selling, general and administrative expenses	897	400	2,750	1,169
	$ 1,443	$ 674	$ 4,351	$ 1,898

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(UNAUDITED)

NOTE 13 FINANCE LEASE LIABILITIES:

Finance lease liabilities include the following:

	As of March 31, 2011	As of June 30, 2010
	(in thousands)	
Software license	$ 435	$ 851
Technology license	144	156
	579	1,007
Less: current portion	449	571
Long-term finance lease liabilities	$ 130	$ 436

Future minimum lease payments at March 31, 2011 and June 30, 2010 are as follows:

	As of March 31, 2011	As of June 30, 2010
	(in thousands)	
No later than one year	$ 474	$ 624
Later than one year and no later than five years	100	399
Later than five years	75	100
	649	1,123
Less amount representing interest	70	116
Total finance lease liabilities	$ 579	$ 1,007

Finance lease liabilities are recognized at the present value of the minimum lease payments at the inception of the lease. The discount rate used in calculating the present value of the minimum lease payments is the Company s incremental borrowing rate.

NOTE 14 BORROWINGS:

In April 2010, one of the Company s subsidiaries in China entered into a line of credit arrangement with a Chinese bank to allow the Company to draw down, from time to time, up to 80% of the balance of the subsidiary s accounts receivable with a maximum amount of 40 million Chinese Yuan (equivalent of $6,098,000 as of March 31, 2011) to finance the subsidiary s accounts receivable on a maximum of 120-day repayment term. The interest rate on each drawdown varies and indexes to the published London Interbank Offered Rate per annum. The outstanding loan balances were $4,700,000 and $3,680,000 at March 31, 2011 and June 30, 2010, respectively. The carrying amounts of the borrowings at March 31, 2011 and June 30, 2010 approximated their fair value. The effective interest rate for the borrowing was 3.5% for both the three and nine months ended March 31, 2011.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(UNAUDITED)

In December 2010 the Company acquired APM and assumed APM s bank borrowing liabilities. The outstanding balance from these bank borrowings was $8,545,000 at March 31, 2011. These borrowings were made under various line of credit agreements with local banks. The interest rate on each drawdown from these lines of credit varies and indexes to the published London Interbank Offered Rate per annum. The following summaries these lines of credit and balances at March 31, 2011:

Line of Credit	Maturity Date	Maximum Limit in Chinese Yuan	Maximum Limit in U.S. Dollar Equivalent	Borrowing Balance at March 31, 2011	Available credit at March 31, 2011
			(in thousands)		
A	July 16, 2011	105,000	$15,909	$ 961	$ 14,948
B	August 16, 2011	40,000	6,061	6,022	39
C	July 20, 2011	30,000	4,545		4,545
D	June 12, 2011	15,000	2,273		2,273
E	July 31, 2011		3,000	1,562	1,438
			$ 31,788	$ 8,545	$ 23,243

The proceeds from these loan agreements are used to finance APM s purchases of property, plant and equipment and inventory materials on a short term basis. The carrying amounts of the borrowings at March 31, 2011 approximated their fair values. APM s property, plant and equipment with carrying amount of $60,492,000 were pledged as collateral for one of the borrowings at March 31, 2011. The effective interest rate for these borrowings was 3.0% and 2.9% for the three and nine months ended March 31, 2011, respectively.

NOTE 15 CASH AND CASH EQUIVALENTS:

	As of March 31, 2011	As of June 30, 2010
	(in thousands)	
Cash at bank and on hand	$ 61,574	$ 43,601
Short-term bank deposits	50,679	75,400
Cash and cash equivalents	$ 112,253	$ 119,001
Denominated in		
U.S. Dollar	$ 97,433	$ 117,257
Chinese Yuan (RMB)	14,128	1,327
Others	692	417
	$ 112,253	$ 119,001

NOTE 16 DEFERRED INCOME TAX:

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	As of March 31, 2011	As of June 30, 2010
	(in thousands)	
Deferred tax assets		
Deferred tax asset to be recovered after more than 12 months	$ 9,349	$ 1,483
Deferred tax asset to be recovered within 12 months	1,517	813
	$ 10,866	$ 2,296
Deferred tax liabilities		
Deferred tax liabilities to be recovered after more than 12 months	$ (35)	$ (25)
	$ (35)	$ (25)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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The gross movement in the deferred income tax account is as follows:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2011	2010	2011	2010
	(in thousands)		(in thousands)	
Beginning of the period	$ 10,499	$ 1,518	$ 2,271	$ 1,123
Charged to statement of income	254	679	665	1,074
Purchase accounting adjustment			7,748	
Exchange differences	77		146	
End of the period	$ 10,830	$ 2,197	$ 10,830	$ 2,197

The changes in deferred income tax assets and liabilities during the nine months ended March 31, 2011, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Deferred Income Tax Assets

	Tax Credits	Accrued Compensation	Accelerated Tax Depreciation	Others	Total
			(in thousands)		
At June 30, 2010	$ 812	$ 730	$ 1,295	$ 450	$ 3,287
Charged/(credited) to the income statement	(33)	52	757	(72)	704
Purchase accounting adjustment		307	7,389	402	8,098
Exchange differences		12	133	13	158
At March 31, 2011	$ 779	$ 1,101	$ 9,574	$ 793	$ 12,247

Deferred Income Tax Liabilities

	Accelerated Tax Depreciation	Intangible Assets	Others	Total
		(in thousands)		
At June 30, 2010	$ (759)	$	$ (257)	$ (1,016)
Charged/(credited) to statement of income	(54)	37	(21)	(38)
Purchase accounting adjustment		(350)		(350)
Exchange differences	(3)	(6)	(4)	(13)
At March 31, 2011	$ (816)	$ (319)	$ (282)	$ (1,417)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(UNAUDITED)

Deferred income tax assets are recognized for credits carried forward to the extent that the realization of the related tax benefit through future taxable profits is probable. The Company recognized $779,000 and $812,000 of U.S. federal research tax credit carried forward as of March 31, 2011 and June 30, 2010, respectively. The U.S. federal tax research credit at March 31, 2011 included the benefit of $209,000 of U.S. federal research credits recognized during the nine months ended March 31, 2011 due to the retroactive reinstatement of a previously expired tax credit. The Company did not recognize deferred income tax assets of $1,316,000 and $1,296,000 related to California state tax credits carried forward at March 31, 2011 and at June 30, 2010, respectively, as the Company could not conclude that it would be probable that sufficient future taxable income would be generated to utilize these tax credits. The U.S. federal tax credits carried forward expire after 20 years, and there is no expiry dates for the California state tax credits carried forward. The credit carry-forwards are subject to change of ownership limitations under U.S. federal and state tax laws.

The Company and its subsidiaries conduct their businesses in several countries and regions and are subject to taxation in those jurisdictions. Dividend distributions received from the Company s foreign subsidiaries may be subject to local withholding taxes when, and if, distributed. Deferred income tax liabilities have not been recognized for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries because the Company s intent is to indefinitely reinvest any undistributed earnings in those subsidiaries. It is not practical to determine the amount of the liability if dividends from those subsidiaries were to occur. Cumulative undistributed earnings of foreign subsidiaries for which no deferred taxes have been provided were $19,605,000 and $14,301,000 at March 31, 2011 and at June 30, 2010, respectively.

NOTE 17 TRADE AND OTHER PAYABLES:

	As of March 31, 2011	As of June 30, 2010
	(in thousands)	
Trade payables	$ 60,427	$ 37,930
Accrued salaries and wages	1,704	810
Accrued vacation	1,333	880
Accrued bonuses	2,436	3,955
Accrued professional fees	1,177	895
ESPP payable	512	227
Customer deposits	986	869
Other accrued expenses	4,846	2,018
	$ 73,421	$ 47,584

The carrying amounts of trade payables for the Company approximate their fair values due to their short maturity terms. They have contractual maturities ranging from 30 to 90 days.

ALPHA AND OMEGA SEMICONDUCTOR LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(UNAUDITED)

NOTE 18 PROVISIONS:

	Warranty	Stock Rotation	Total
		(in thousands)	
At June 30, 2010	$ 1,275	$ 513	$ 1,788
Provision	871	3,494	4,365
Release of unused amount	(928)	(68)	(996)
Utilization	(516)	(2,061)	(2,577)
At March 31, 2011	$ 702	$ 1,878	$ 2,580

NOTE 19 EXPENSES BY NATURE:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2011	2010	2011	2010
	(in thousands)		(in thousands)	
Changes in inventories of finished goods and work in progress	$ (5,787)	$ 124	$ (3,746)	$ (2,229)
Assembly and testing fee	1,373	21,362	33,286	63,036
Raw materials used	51,213	28,592	125,189	81,090
Warranty expense (net of released)	58	110	(57)	674
Shipping costs	1,201	819	3,179	2,247
Depreciation and amortization	4,913	2,266	11,343	6,613
Provision for write-down of inventories, net	489	99	2,426	216
Product prototypes	2,867	1,743	6,748	5,612
Employee benefit expense	14,549	9,207	37,533	24,234
Professional services fees	1,413	616	4,043	2,577
Rent and utilities expenses	2,528	375	5,558	1,170
Commission expense	326	40	1,564	40
Insurance expense	836	431	1,935	1,278
Other expenses	4,215	2,601	7,591	4,809
Total cost of goods sold and operating expenses	$ 80,194	$ 68,385	$ 236,592	$ 191,367

ALPHA AND OMEGA SEMICONDUCTOR LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(UNAUDITED)

NOTE 20 EMPLOYEE BENEFIT EXPENSE:

	Three Months Ended March 31, 2011	2010	Nine Months Ended March 31, 2011	2010
	(in thousands)		(in thousands)	
Wages, salaries and bonuses	$ 12,172	$ 7,935	$ 31,025	$ 20,805
Share-based compensation	1,443	674	4,351	1,898
Social security costs	358	307	818	683
Pension costs-defined contribution plans	576	291	1,339	848
	$ 14,549	$ 9,207	$ 37,533	$ 24,234

NOTE 21 INCOME TAX EXPENSE:

	Three Months Ended March 31, 2011	2010	Nine Months Ended March 31, 2011	2010
	(in thousands)		(in thousands)	
Overseas	$ 1,093	$ 1,173	$ 2,632	$ 2,214
Deferred income tax	(254)	(679)	(665)	(1,074)
	$ 839	$ 494	$ 1,967	$ 1,140

The income tax on the Company s profit before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to the profit of the consolidated entities as follows:

	Three Months Ended March 31, 2011	2010	Nine Months Ended March 31, 2011	2010
	(in thousands)		(in thousands)	
Profit before income tax	$ 10,862	$ 10,082	$ 30,817	$ 29,786
Tax calculated at domestic tax rates applicable to profits in the respective countries which the entities conduct business	946	454	2,351	1,071
Income not subject to tax	(3)	(2)	(14)	(19)
Expenses not deductible for tax purposes	(26)	34	35	102
Overseas tax credits	(105)	(87)	(522)	(173)
Others	27	95	117	159
Income tax expense	$ 839	$ 494	$ 1,967	$ 1,140

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ALPHA AND OMEGA SEMICONDUCTOR LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(UNAUDITED)

The current income tax liabilities are detailed as follows: