ALPHA & OMEGA SEMICONDUCTOR Ltd
Form 6-K
February 24, 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 FEBRUARY 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 Second Quarter Ended December 31, 2010

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ALPHA AND OMEGA SEMICONDUCTOR LIMITED

CONSOLIDATED BALANCE SHEETS

(in thousands)

(unaudited)

	Note	December 31, 2010	June 30, 2010
ASSETS			
Noncurrent assets:			
Property, plant and equipment	6	$ 106,043	$ 44,163
Intangible assets	7	4,486	3,820
Investment in an associate	8		25,693
Deferred income tax assets	16	10,521	2,296
Other noncurrent assets	9	5,476	458
Total noncurrent assets		126,526	76,430
Current assets:			
Inventories	11	44,525	28,315
Trade receivables	10	42,030	30,639
Other current assets		2,130	3,075
Restricted cash		79	707
Cash and cash equivalents	15	114,412	119,001
Total current assets		203,176	181,737
Total assets		$ 329,702	$ 258,167
EQUITY			
Capital and reserves			
Share capital	12	$ 49	$ 44
Share premium	12	128,956	103,803
Other reserves		21,051	17,946
Retained earnings		86,430	67,603
Total equity		236,486	189,396
LIABILITIES			
Noncurrent liabilities:			
Deferred income tax liabilities	16	22	25
Deferred rent		824	670
Finance lease liabilities	13	144	436
Total noncurrent liabilities		990	1,131
Current liabilities:			
Trade and other payables	17	69,403	47,584
Current income tax liabilities	21	6,039	3,917
Borrowings	14	13,942	3,680
Trade and other payable to an associate	26		10,100
Finance lease liabilities	13	589	571
Provisions	18	2,253	1,788

Total current liabilities		92,226	67,640
Total liabilities		93,216	68,771
Total equity and liabilities	$	329,702	$ 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 December 31,		Six Months Ended December 31,	
	Note	2010	2009	2010	2009
Revenue	5	$ 83,982	$ 63,982	$ 173,399	$ 138,699
Cost of goods sold	19,20	59,961	45,949	125,129	101,885
Gross profit	19,20	24,021	18,033	48,270	36,814
Research and development expenses	19,20	6,638	5,321	12,933	9,593
Selling, general and administrative expenses	19,20	9,078	6,140	18,336	11,505
Total operating expenses		15,716	11,461	31,269	21,098
Operating profit		8,305	6,572	17,001	15,716
Finance income		53	7	81	19
Finance cost		(63)	(20)	(109)	(130)
Finance income (cost), net		(10)	(13)	(28)	(111)
Gain on equity interest	25	998		998	
Share of profit of an associate	8	1,161	3,546	1,984	4,099
Profit before income tax		10,454	10,105	19,955	19,704
Income tax expense	21	522	386	1,128	646
Net profit for the period		9,932	9,719	18,827	19,058
Earnings per share					
Basic	22	$ 0.43	$ 1.22	$ 0.84	$ 2.40
Diluted	22	$ 0.41	$ 0.48	$ 0.78	$ 0.95
Weighted-average number of shares used in computing earnings per share					
Basic shares	22	22,977	7,956	22,546	7,939
Diluted shares	22	24,425	20,085	24,044	19,991

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 December 31,		Six Months Ended December 31,	
	2010	2009	2010	2009
Net profit	$ 9,932	$ 9,719	$ 18,827	$ 19,058
Other comprehensive income				
Currency translation differences	81	13	197	25
Total comprehensive income	$ 10,013	$ 9,732	$ 19,024	$ 19,083

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		Retained Earnings	Total
		Share-Based Payment Reserve	Translation Differences		
Balance at June 30, 2009	$ 50,296	$ 13,925	$ 566	$ 30,012	$ 94,799
Currency translation differences			25		25
Profit for the period				19,058	19,058
Share-based compensation expense		1,224			1,224
Proceeds from exercise of share options	82				82
Balance at December 31, 2009	$ 50,378	$ 15,149	$ 591	$ 49,070	$ 115,188
Balance at June 30, 2010	$ 103,847	$ 17,369	$ 577	$ 67,603	$ 189,396
Currency translation differences			197		197
Profit for the period				18,827	18,827
IPO issuance costs	(117)				(117)
Common shares issued for APM acquisition	23,067				23,067
Proceeds from Employee Share Purchase Plan	840				840
Share-based compensation expense		2,908			2,908
Proceeds from exercise of share options	1,368				1,368
Balance at December 31, 2010	$ 129,005	$ 20,277	$ 774	$ 86,430	$ 236,486

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)

		Six Months Ended December 31,	
	Note	2010	2009
Cash flows from operating activities			
Cash generated from operations	23	$ 23,938	$ 19,041
Interest paid		(109)	(130)
Income tax paid		(593)	(984)
Net cash generated from operating activities		23,236	17,927
Cash flows from investing activities			
APM Acquisition, net of cash acquired	25	(1,285)	
Increase equity interest in APM	8	(1,831)	
Deposit for manufacturing capacity	9	(5,000)	
Purchase of property, plant and equipment	6	(20,622)	(4,440)
Purchases of intangible assets	7	(38)	
Restricted cash released		628	
Net cash used in investing activities		(28,148)	(4,440)
Cash flows from financing activities			
Proceeds from employee share purchase plan	12	840	
Proceeds from exercise of share options	12	1,368	82
Proceeds from borrowings	14	10,570	
Repayment of borrowings	14	(11,653)	(13,856)
Payments of IPO related costs		(610)	(195)
Principal payment on finance leases	13	(275)	(120)
Net cash generated from (used in) financing activities		240	(14,089)
Net decrease in cash and cash equivalents		(4,672)	(602)
Cash and cash equivalents at beginning of period		119,001	60,416
Exchange gains on cash and cash equivalents		83	6
Cash and cash equivalents at end of period		$ 114,412	$ 59,820
Supplemental non-cash disclosures:			
Increase(decrease) of property, plant and equipment included in trade and other payable		$ (4,366)	$ 356
Issuance of common shares for APM Acquisition		$ 23,067	

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.

The Company 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 financial statements for the three and six months ended December 31, 2010 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 February 23, 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), which is the Company s functional currency.

Basis of Preparation

This consolidated interim financial information for the three and six months ended December 31, 2010 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 six months ended December 31, 2010 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 quarter ended December 31, 2010, 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 has revised the estimated useful lives 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 $761,000, increase net income by $586,000, net of tax effect, and increase for basic earnings per share by $0.03 and diluted earnings per share by $0.02 for the three and six months ended December 31, 2010. The effect of this change is expected to decrease depreciation expense by approximately $2,166,000 for the three months ending March 31, 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 December 31,		Six Months Ended December 31,	
	2010	**2009**	**2010**	**2009**
Percentage of revenue				
Customer A	36.9%	32.8%	33.7%	34.3%
Customer B	31.1%	42.9%	34.4%	43.6%
Customer C	12.9%	9.2%	12.0%	8.4%

	As of December 31, 2010	As of June 30, 2010
Percentage of trade receivables		
Customer A	41.6%	56.3%
Customer C	18.8%	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 December 31, 2010	As of June 30, 2010
Trade and other payables	$ 69,403	$ 47,584
Trade and other payable to an associate		10,100
Provisions	2,253	1,788
Borrowings	13,942	3,680
Current income tax payable	6,039	3,917
Finance lease liabilities	733	1,007
Deferred income tax liabilities	22	25
Deferred Rent	824	670
Total debt	$ 93,216	$ 68,771
Total equity	$ 236,486	$ 189,396
Debt-to-equity ratio	0.39	0.36

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 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. 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* 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. After the APM Acquisition 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. During the quarter ended December 31, 2010, upon the completion of the APM Acquisition, the Company has 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.

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 December 31,		Six Months Ended December 31,	
	2010	2009	2010	2009
	(in thousands)		(in thousands)	
Hong Kong	$ 78,612	$ 63,615	$ 164,472	$ 138,199
Korea	1,864	198	3,985	198
China	1,847		1,847	
United States	529	71	1,224	108
Other countries	1,130	98	1,871	194
	$ 83,982	$ 63,982	$ 173,399	$ 138,699

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 December 31,		Six Months Ended December 31,	
	2010	2009	2010	2009
	(in thousands)		(in thousands)	
Power discrete	$ 66,491	$ 56,570	$ 138,650	$ 122,221
Power IC	15,644	7,412	32,902	16,478
Packaging and testing services	1,847		1,847	
	$ 83,982	$ 63,982	$ 173,399	$ 138,699

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

	As of December 31, 2010	As of June 30, 2010
	(in thousands)	
United States	$ 11,091	$ 5,198
Taiwan	572	454
China	103,291	67,688
The Cayman Islands	883	639
Other countries	168	155
Unallocated assets-Deferred income tax assets	10,521	2,296
	$ 126,526	$ 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	Leasehold Improvements	Equipment and Construction in Progress	Total
				(in thousands)			
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 Six Months Ended December 31, 2009							
Opening net book amount	$ 16,327	$ 2,811	$ 1,366	$ 239	$ 6,576	$ 935	$ 28,254
Additions (net of transfer out)	3,246	636	273	20	45	325	4,545
Depreciation	(2,089)	(591)	(454)	(59)	(408)		(3,601)
Closing net book amount	$ 17,484	$ 2,856	$ 1,185	$ 200	$ 6,213	$ 1,260	$ 29,198
As of December 31, 2009							
Cost	$ 22,925	$ 7,708	$ 5,244	$ 670	$ 7,713	$ 1,260	$ 45,520
Accumulated depreciation	(5,441)	(4,852)	(4,059)	(470)	(1,500)		(16,322)
Net book amount	$ 17,484	$ 2,856	$ 1,185	$ 200	$ 6,213	$ 1,260	$ 29,198

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 Six Months Ended December 31, 2010							
Opening net book amount	24,523	2,860	946	543	7,656	7,635	44,163
Foreign Exchange differences		(47)	(26)	(14)	(11)		(98)
APM acquisition	44,772	158	134	154	3,260	3,413	51,891
Additions (net of transfer out)	11,044	812	295	64	1,031	2,545	15,791
Disposal		(41)					(41)
Depreciation	(4,049)	(525)	(328)	(99)	(662)		(5,663)
Closing net book amount	76,290	3,217	1,021	648	11,274	13,593	106,043
As of December 31, 2010							
Cost	88,233	9,239	5,836	1,293	13,916	13,593	132,110
Accumulated depreciation	(11,943)	(6,022)	(4,815)	(645)	(2,642)		(26,067)
Net book amount	$ 76,290	$ 3,217	$ 1,021	$ 648	$ 11,274	$ 13,593	$ 106,043

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2010	2009	2010	2009
	(in thousands)		(in thousands)	
Cost of goods sold	$ 2,801	$ 1,470	$ 4,980	$ 2,871
Research and development expenses	198	244	362	484
Selling, general and administrative expenses	162	127	321	246
	$ 3,161	$ 1,841	$ 5,663	$ 3,601

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 Six Months Ended December 31, 2009					
Opening net book amount	858	4,262			5,120
Amortization charge	(134)	(598)			(732)
Closing net book amount	$ 724	$ 3,664	$	$	$ 4,388
As of December 31, 2009					
Cost	$ 1,566	$ 5,594			$ 7,160
Accumulated amortization	(842)	(1,930)			(2,772)
Net book amount	$ 724	$ 3,664	$	$	$ 4,388
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 Six Months Ended December 31, 2010					
Opening net book amount	$ 616	$ 3,204			$ 3,820
APM Acquisition			250	1,150	1,400
Additions		38			38
Disposals		(6)			(6)
Amortization charge	(100)	(635)	(7)	(24)	(766)
Closing net book amount	$ 516	$ 2,601	$ 243	$ 1,126	$ 4,486
As of December 31, 2010					
Cost	1,566	5,772	250	1,150	8,738
Accumulated amortization	(1,050)	(3,171)	(7)	(24)	(4,252)
Net book amount	$ 516	$ 2,601	$ 243	$ 1,126	$ 4,486

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 December 31,		Six Months Ended December 31,	
	2010	2009	2010	2009
	(in thousands)		(in thousands)	
Cost of goods sold	$	$ 16	$	$ 149
Research and development expenses	162	150	323	407
Selling, general and administrative expenses	236	200	443	176
	$ 398	$ 366	$ 766	$ 732

NOTE 8 INVESTMENT IN AN ASSOCIATE:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2010	2009	2010	2009
	(in thousands)		(in thousands)	
Beginning of the period	$ 26,516	$ 19,952	$ 25,693	$ 19,399
Share of profit	1,161	3,546	1,984	4,099
Additional investment made	1,830		1,831	
APM Acquisition (Note 25)	(29,507)		(29,508)	
End of the period	$	$ 23,498	$	$ 23,498

NOTE 9 OTHER NONCURRENT ASSETS:

	As of December 31, 2010	As of June 30, 2010
	(in thousands)	
Deposit for manufacturing capacity	$ 5,000	$
Operating leases deposits	476	458
	$ 5,476	$ 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 December 31, 2010	As of June 30, 2010
	(in thousands)	
Net billings	$ 53,001	$ 39,120
Less: Provision for price adjustments	(10,941)	(8,451)
Less: Provision for impairment	(30)	(30)
Trade receivables	$ 42,030	$ 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 December 31, 2010	As of June 30, 2010
	(in thousands)	
Past due but not impaired		
1-30 days past due	$ 2,124	$ 1,104
31-60 days past due	1,105	52
over 61 days past due	781	
	$ 4,010	$ 1,156

Changes in the provision for price adjustments are as follows:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2010	2009	2010	2009
	(in thousands)		(in thousands)	
Beginning of the period	$ 10,809	$ 11,002	$ 8,451	$ 11,002
Provision for the period	16,172	19,831	36,378	45,755
Utilized	(16,040)	(21,571)	(33,888)	(45,122)
End of the period	$ 10,941	$ 9,262	$ 10,941	$ 11,635

NOTE 11 INVENTORIES:

	As of December 31, 2010	As of June 30, 2010
	(in thousands)	
Raw materials	$ 22,147	$ 8,953
Work in progress	12,778	8,949
Finished goods	9,600	10,413