

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

FORM 10-Q

(MARK ONE)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2016

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE TRANSITION PERIOD FROM TO

Commission file number 001-34717

Alpha and Omega Semiconductor Limited

(Exact name of Registrant as Specified in its Charter)

Bermuda
(State or Other Jurisdiction of Incorporation or Organization)

77-0553536
(I.R.S. Employer Identification Number)

Clarendon House, 2 Church Street
Hamilton HM 11, Bermuda
(Address of Principal Registered
Offices including Zip Code)
(408) 830-9742
(Registrant's Telephone Number, Including Area Code)

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

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

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

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

(Do not check if a smaller reporting company)

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

Number of common shares outstanding as of April 30, 2016: 22,431,746.

Alpha and Omega Semiconductor Limited
Form 10-Q
Fiscal Third Quarter Ended March 31, 2016
TABLE OF CONTENTS

	<u>Page</u>
Part I.	<u>FINANCIAL INFORMATION</u>
Item 1.	<u>Financial Statements:</u> <u>1</u>
	<u>Condensed Consolidated Balance Sheets as of March 31, 2016 and June 30, 2015 (Unaudited)</u> <u>1</u>
	<u>Condensed Consolidated Statements of Operations for the Three and Nine Months Ended March 31, 2016 and 2015 (Unaudited)</u> <u>2</u>
	<u>Condensed Consolidated Statements of Comprehensive Loss for the Three and Nine Months Ended March 31, 2016 and 2015 (Unaudited)</u> <u>3</u>
	<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended March 31, 2016 and 2015 (Unaudited)</u> <u>4</u>
	<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u> <u>5</u>
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> <u>17</u>
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u> <u>27</u>
Item 4.	<u>Controls and Procedures</u> <u>27</u>
Part II.	<u>OTHER INFORMATION</u>
Item 1.	<u>Legal Proceedings</u> <u>28</u>
Item 1A.	<u>Risk Factors</u> <u>28</u>
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> <u>29</u>
Item 3.	<u>Defaults Upon Senior Securities</u> <u>30</u>
Item 4.	<u>Mine Safety Disclosures</u> <u>30</u>
Item 5.	<u>Other Information</u> <u>30</u>
Item 6.	<u>Exhibits</u> <u>31</u>
	<u>Signatures</u> <u>32</u>

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ALPHA AND OMEGA SEMICONDUCTOR LIMITED **CONDENSED CONSOLIDATED BALANCE SHEETS** (Unaudited, in thousands except par value per share)

	March 31, 2016	June 30, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 78,923	\$ 106,085
Restricted cash	347	368
Accounts receivable, net	32,036	38,781
Inventories	67,911	64,175
Deferred income tax assets	2,959	2,205
Other current assets	5,772	4,279
Total current assets	187,948	215,893
Property, plant and equipment, net	112,497	119,579
Intangible assets, net	16	17
Goodwill	269	269
Deferred income tax assets - long term	10,193	10,848
Other long-term assets	2,971	2,011
Total assets	\$ 313,894	\$ 348,617
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 47,041	\$ 44,083
Accrued liabilities	22,011	19,225
Income taxes payable	1,724	1,372
Deferred margin	807	716
Capital leases	255	941
Total current liabilities	71,838	66,337
Income taxes payable - long term	1,576	1,601
Deferred income tax liabilities	3,913	3,023
Capital leases - long term	45	64
Other long term liabilities	797	953
Total liabilities	78,169	71,978
Commitments and contingencies (Note 8)		
Shareholders' equity:		
Preferred shares, par value \$0.002 per share:		
Authorized: 10,000 shares, issued and outstanding: none at March 31, 2016 and June 30, 2015	—	—
Common shares, par value \$0.002 per share:		
Authorized: 50,000 shares, issued and outstanding: 28,039 shares and 22,360 shares, respectively at March 31, 2016 and 27,314 shares and 26,316 shares, respectively at June 30, 2015	56	55
Treasury shares at cost, 5,679 shares at March 31, 2016 and 998 shares at June 30, 2015	(50,470)	(8,593)
Additional paid-in capital	187,148	181,040
Accumulated other comprehensive income	772	905
Retained earnings	98,219	103,232
Total shareholders' equity	235,725	276,639
Total liabilities and shareholders' equity	\$ 313,894	\$ 348,617

See accompanying notes to these condensed consolidated financial statements.

ALPHA AND OMEGA SEMICONDUCTOR LIMITED
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited, in thousands except per share data)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2016	2015	2016	2015
Revenue	\$ 82,987	\$ 76,918	\$ 244,251	\$ 246,463
Cost of goods sold	66,668	64,154	197,899	200,297
Gross profit	16,319	12,764	46,352	46,166
Operating expenses				
Research and development	6,924	6,929	19,029	20,155
Selling, general and administrative	9,444	9,219	28,300	27,958
Impairment of long-lived assets	—	—	432	—
Total operating expenses	16,368	16,148	47,761	48,113
Operating loss	(49)	(3,384)	(1,409)	(1,947)
Interest income and other, net	10	18	30	92
Interest expense	(5)	(41)	(22)	(157)
Loss before income taxes	(44)	(3,407)	(1,401)	(2,012)
Income tax expense	1,219	698	3,448	2,826
Net loss	\$ (1,263)	\$ (4,105)	\$ (4,849)	\$ (4,838)
Net loss per share:				
Basic	\$ (0.06)	\$ (0.16)	\$ (0.22)	\$ (0.18)
Diluted	\$ (0.06)	\$ (0.16)	\$ (0.22)	\$ (0.18)
Weighted average number of common shares used to compute net loss per share:				
Basic	22,232	26,447	22,400	26,469
Diluted	22,232	26,447	22,400	26,469

See accompanying notes to these condensed consolidated financial statements.

ALPHA AND OMEGA SEMICONDUCTOR LIMITED
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Unaudited, in thousands)

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2016	2015	2016	2015
Net loss	\$ (1,263)	\$ (4,105)	\$ (4,849)	\$ (4,838)
Foreign currency translation adjustment, net of tax	22	28	(133)	(118)
Total comprehensive loss	<u>\$ (1,241)</u>	<u>\$ (4,077)</u>	<u>\$ (4,982)</u>	<u>\$ (4,956)</u>

See accompanying notes to these condensed consolidated financial statements.

ALPHA AND OMEGA SEMICONDUCTOR LIMITED
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in thousands)

	Nine Months Ended March 31,	
	2016	2015
Cash flows from operating activities		
Net loss	\$ (4,849)	\$ (4,838)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	20,704	20,666
Amortization	1	140
Share-based compensation expense	3,047	3,319
Deferred income taxes, net	791	144
Gain on disposal of property and equipment	—	(92)
Impairment of long-lived assets	432	—
Government grant via forgiven loan	—	(250)
Changes in assets and liabilities:		
Accounts receivable	6,745	5,605
Inventories	(3,736)	249
Other current and long-term assets	(2,453)	(939)
Accounts payable	2,285	(5,046)
Income taxes payable	327	(805)
Accrued and other liabilities	3,067	61
Net cash provided by operating activities	26,361	18,214
Cash flows from investing activities		
Purchases of property and equipment	(13,777)	(12,579)
Proceeds from sale of property and equipment	—	50
Changes in restricted cash	22	(1)
Net cash used in investing activities	(13,755)	(12,530)
Cash flows from financing activities		
Withholding tax on restricted stock units	(948)	(492)
Proceeds from exercise of stock options and ESPP	4,050	1,910
Payment for repurchases of common shares	(42,080)	(3,977)
Repayments of borrowings	—	(7,143)
Principal payments on capital leases	(706)	(790)
Net cash used in financing activities	(39,684)	(10,492)
Effect of exchange rate changes on cash and cash equivalents	(84)	(49)
Net decrease in cash and cash equivalents	(27,162)	(4,857)
Cash and cash equivalents at beginning of period	106,085	117,788
Cash and cash equivalents at end of period	\$ 78,923	\$ 112,931
Supplemental disclosures of non-cash investing and financing information:		
Property and equipment purchased but not yet paid	\$ 5,326	\$ 4,137
Re-issuance of treasury stock	\$ 164	\$ 106

See accompanying notes to these condensed consolidated financial statements.

ALPHA AND OMEGA SEMICONDUCTOR LIMITED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. The Company and Significant Accounting Policies

The Company

Alpha and Omega Semiconductor Limited and its subsidiaries (the "Company," "AOS," "we" or "us") design, develop and supply a broad range of power semiconductors. The Company's portfolio of products targets high-volume applications, including personal computers, flat panel TVs, LED lighting, smart phones, battery packs, consumer and industrial motor controls and power supplies for TVs, computers, servers and telecommunications equipment. The Company conducts its operations primarily in the United States of America ("USA"), Hong Kong, China, Taiwan, Korea and Japan.

Basis of Preparation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") for interim financial information and with the instructions to Article 10 of Securities and Exchange Commission Regulation S-X, as amended. They do not include all information and footnotes necessary for a fair presentation of financial position, results of operations and cash flows in conformity with U.S. GAAP for complete financial statements. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes contained in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2015. All significant intercompany balances and transactions have been eliminated in consolidation. In the opinion of management, all adjustments (consisting of normal recurring adjustments and accruals) considered necessary for a fair presentation of the results of operations for the periods presented have been included in the interim periods. Operating results for the nine months ended March 31, 2016 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2016. The condensed consolidated balance sheet at June 30, 2015 is derived from the audited financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2015.

Reclassification

The Company has reclassified certain amounts previously reported in its financial statements to conform to the current presentation. These reclassifications did not have a material impact on our consolidated financial statements.

Correction of Errors

In this Quarterly Report on Form 10-Q, certain prior period financial information has been restated due to an accounting correction. During the quarter ended March 31, 2016, the Company identified and recorded immaterial errors related to the fiscal years ended June 30, 2015, 2014 and 2013. The immaterial errors resulted from overstatement of long-term deferred income tax liabilities and income tax expenses. The overall impact of the errors on the Company's consolidated financial position and results of operations is not material and as such, previously filed Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q for the periods affected by the errors have not been amended.

The adjustments resulted in a decrease in net loss of \$172,000, \$204,000 and \$149,000 for the years ended June 30, 2015, 2014 and 2013, respectively and a decrease in basic and diluted net loss per common share of \$0.01 for the years ended June 30, 2015, 2014 and 2013. The impact to the consolidated balance sheets as of June 30, 2015, 2014 and 2013 was a decrease in deferred income tax liabilities of \$525,000, \$353,000 and \$149,000, respectively and an increase in retained earnings by the same amounts. All prior period amounts in this Quarterly Report on Form 10-Q affected by the errors reflect such amounts.

Use of Estimates

The preparation of the condensed consolidated financial statements in conformity with U.S. GAAP requires the Company to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. To the extent there are material differences between these estimates and actual results, the Company's condensed consolidated financial statements will be affected. On an ongoing basis, the Company evaluates the estimates, judgments and assumptions including those related to stock rotation returns, price adjustments, allowance for doubtful accounts, inventory reserves, warranty accrual, income taxes, share-based compensation, and useful lives for property, plant and equipment and intangible assets.

ALPHA AND OMEGA SEMICONDUCTOR LIMITED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Fair Value of Financial Instruments

The fair value of cash equivalents are based on observable market prices and have been categorized in Level 1 in the fair value hierarchy. Cash equivalents consist primarily of short term bank deposits. The carrying values of financial instruments such as cash and cash equivalents, accounts receivable and accounts payable approximate their carrying values due to their short-term maturities.

Impairment of Long-Lived Assets

Long-lived assets or asset groups are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset might not be recoverable. Factors that would necessitate an impairment assessment include a significant decline in the observable market value of an asset, a significant change in the extent or manner in which an asset is used, or any other significant adverse change that would indicate that the carrying amount of an asset or group of assets may not be recoverable. Where such factors indicate potential impairment, the recoverability of an asset or asset group is assessed by determining if the carrying value of the asset or asset group exceeds the sum of the projected undiscounted cash flows expected to result from the use and eventual disposition of the assets over the remaining economic life. The impairment loss is measured based on the difference between the carrying amount and the estimated fair value.

Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. The Company's accumulated other comprehensive income (loss) consists of cumulative foreign currency translation adjustments. Total comprehensive income (loss) is presented in the condensed consolidated statements of comprehensive income (loss).

Recent Accounting Pronouncements

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"). ASU 2016-09 simplifies several aspects of the accounting for employee share-based payment transactions including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification of related amounts within the statement of cash flows. This guidance is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted. The Company does not expect the adoption of this guidance will have a material impact on its consolidated financial position, results of operations or cash flows.

In February 2016, the FASB issued No. 2016-02, Leases ("ASU 2016-02"). This guidance requires a dual approach for lessee accounting under which a lessee will account for leases as finance leases or operating leases. Both finance and operating leases will result in the lessee recognizing a right-of-use asset and a corresponding liability on its balance sheet, with differing methodology for income statement recognition. This guidance is effective for public business entities for fiscal years, and interim periods within those years, beginning after December 15, 2018, and early adoption is permitted. A modified retrospective approach is required for all leases existing or entered into after the beginning of the earliest comparative period in the consolidated financial statements. The Company is currently assessing the impact that adoption of this guidance will have on its consolidated financial statements.

In July 2015, the FASB issued No. 2015-11, Inventory - Simplifying the Measurement of Inventory ("ASU 2015-11"). ASU 2015-11 is additional guidance regarding the subsequent measurement of inventory by requiring inventory to be measured at the lower of cost and net realizable value. This guidance is effective for fiscal years and interim periods beginning after December 15, 2016. Early adoption is permitted. The Company does not expect the adoption of this guidance will have a material impact on its consolidated financial position, results of operations or cash flows.

In April 2015, the FASB issued ASU No. 2015-03, Interest -Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts and the accounting for debt issue costs under IFRS. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. ASU 2015-03 is effective for the annual period ending after December 15, 2015, and interim periods within those fiscal years. Early adoption of the amendments in this Update is

ALPHA AND OMEGA SEMICONDUCTOR LIMITED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

permitted for financial statements that have not been previously issued. The Company does not expect the adoption of this guidance will have a material impact on its consolidated financial position, results of operations or cash flows.

In February 2015, the FASB issued ASU No. 2015-2, "Consolidation (Topic 820): Amendments to the Consolidation Analysis." ASU 2015-2 provides a revised consolidation model for all reporting entities to use in evaluating whether they should consolidate certain legal entities. All legal entities will be subject to reevaluation under this revised consolidation model. The revised consolidation model, among other things, (i) modifies the evaluation of whether limited partnerships and similar legal entities are VIEs or voting interest entities, (ii) eliminates the presumption that a general partner should consolidate a limited partnership, and (iii) modifies the consolidation analysis of reporting entities that are involved with VIEs through fee arrangements and related party relationships. ASU 2015-2 is effective for fiscal years, and interim reporting periods within those fiscal years, beginning after December 15, 2015. The Company does not expect the adoption of this guidance will have a material impact on its consolidated financial position, results of operations or cash flows.

In August 2014, the FASB issued amended standards No. 2014-15, Presentation of Financial Statements - Going Concern ("ASU 2014-15"), to provide guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures requirement. The amendments (1) provide a definition of the term substantial doubt, (2) require an evaluation for each annual and interim reporting period, (3) provide principles for considering the mitigating effect of management's plans, (4) require certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans, (5) require an express statement and other disclosures when substantial doubt is not alleviated, and (6) require an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). ASU 2014-15 is effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early adoption is permitted. The Company does not expect the adoption of this guidance will have a material impact on its consolidated financial position, results of operations or cash flows.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"). The standard provides companies with a single model for use in accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance, including industry-specific revenue guidance. The core principle of the model is to recognize revenue when control of the goods or services transfers to the customer, as opposed to recognizing revenue when the risks and rewards transfer to the customer under the existing revenue guidance. In August 2015, the FASB issued an accounting standard update for a one-year deferral of the effective date of ASU 2014-09 to annual and interim periods beginning after December 15, 2017 and permits entities to early adopt the standard of ASU 2014-09 for annual and interim reporting periods beginning after December 15, 2016. Companies are permitted to either apply the requirements retrospectively to all prior periods presented, or apply the requirements in the year of adoption, through a cumulative adjustment. The Company is in the process of evaluating the timing of its adoption and the impact of adoption on its consolidated financial statements.

ALPHA AND OMEGA SEMICONDUCTOR LIMITED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

2. Net Loss Per Share

The following table presents the calculation of basic and diluted net loss per share:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2016	2015	2016	2015
	(in thousands, except per share data)			
Numerator:				
Net loss	\$ (1,263)	\$ (4,105)	\$ (4,849)	\$ (4,838)
Denominator:				
Basic:				
Weighted average number of common shares used to compute basic net loss per share	22,232	26,447	22,400	26,469
Diluted:				
Weighted average number of common shares used to compute diluted net loss per share	22,232	26,447	22,400	26,469
Net loss per share:				
Basic	\$ (0.06)	\$ (0.16)	\$ (0.22)	\$ (0.18)
Diluted	\$ (0.06)	\$ (0.16)	\$ (0.22)	\$ (0.18)

The following potential dilutive securities were excluded from the computation of diluted net loss per share as their effect would have been anti-dilutive:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2016	2015	2016	2015
	(in thousands)			
Employee stock options and RSUs	3,003	3,689	3,307	3,735
ESPP	416	304	385	395
Total potential dilutive securities	3,419	3,993	3,692	4,130

ALPHA AND OMEGA SEMICONDUCTOR LIMITED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

3. Concentration of Credit Risk and Significant Customers

The Company manages its credit risk associated with exposure to distributors and direct customers on outstanding accounts receivable through the application and review of credit approvals, credit ratings and other monitoring procedures. In some instances, the Company also obtains letters of credit from certain customers.

Credit sales, which are mainly on credit terms of 30 to 60 days, are only made to customers who meet the Company's credit requirements, while sales to new customers or customers with low credit ratings are usually made on an advance payment basis. The Company considers its trade accounts receivable to be of good credit quality because its key distributors and direct customers have long-standing business relationships with the Company and the Company has not experienced any significant write-offs of accounts receivable in the past. The Company closely monitors the aging of accounts receivable from its distributors and direct customers, and regularly reviews their financial positions, when available.

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

Percentage of revenue	Three Months Ended March 31,		Nine Months Ended March 31,	
	2016	2015	2016	2015
Customer A	24.8%	25.1%	24.0%	24.5%
Customer B	36.0%	32.5%	37.2%	36.6%
Customer C	12.9%	12.3%	12.7%	12.2%

Percentage of accounts receivable	March 31, 2016	June 30, 2015
Customer A	28.4%	29.4%
Customer B	23.5%	27.7%
Customer C	21.8%	14.7%

4. Balance Sheet Components

Accounts receivable:

	March 31, 2016	June 30, 2015
	(in thousands)	
Accounts receivable	\$ 48,898	\$ 58,249
Less: Allowance for price adjustments	(16,832)	(19,438)
Less: Allowance for doubtful accounts	(30)	(30)
Accounts receivable, net	<u>\$ 32,036</u>	<u>\$ 38,781</u>

Inventories:

	March 31, 2016	June 30, 2015
	(in thousands)	
Raw materials	\$ 22,991	\$ 19,423
Work in-process	36,363	31,269
Finished goods	8,557	13,483
	<u>\$ 67,911</u>	<u>\$ 64,175</u>

ALPHA AND OMEGA SEMICONDUCTOR LIMITED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Property, plant and equipment, net:

	March 31, 2016	June 30, 2015
	(in thousands)	
Land	\$ 4,877	\$ 4,877
Building	4,243	4,243
Manufacturing machinery and equipment	189,563	172,467
Equipment and tooling	12,316	11,261
Computer equipment and software	20,958	20,602
Office furniture and equipment	1,813	1,762
Leasehold improvements	28,370	27,568
	262,140	242,780
Less: Accumulated depreciation	(162,352)	(141,883)
	99,788	100,897
Equipment and construction in progress	12,709	18,682
Property, plant and equipment, net	<u>\$ 112,497</u>	<u>\$ 119,579</u>

Other long-term assets:

	March 31, 2016	June 30, 2015
	(in thousands)	
Prepayments for property and equipment	\$ 937	\$ 692
Investment in a privately held company	100	100
Office leases deposits	1,934	1,215
Other	—	4
	<u>\$ 2,971</u>	<u>\$ 2,011</u>

Accrued liabilities:

	March 31, 2016	June 30, 2015
	(in thousands)	
Accrued compensation and benefit	\$ 6,584	\$ 5,600
Accrued vacation	2,091	1,830
Accrued bonuses	1,445	1,152
Warranty accrual	1,596	1,957
Stock rotation accrual	2,056	1,894
Accrued professional fees	1,548	1,402
ESPP payable	878	343
Customer deposits	580	149
Accrued inventory	1,187	697
Accrued facilities related expenses	1,325	1,367
Other accrued expenses	2,721	2,834
	<u>\$ 22,011</u>	<u>\$ 19,225</u>

ALPHA AND OMEGA SEMICONDUCTOR LIMITED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The activities in the warranty accrual, included in accrued liabilities, are as follows:

	Nine Months Ended March 31,	
	2016	2015
	(in thousands)	
Beginning balance	\$ 1,957	\$ 1,346
Additions	803	1,216
Utilization	(1,164)	(1,445)
Ending balance	\$ 1,596	\$ 1,117

The activities in the stock rotation accrual, included in accrued liabilities, are as follows:

	Nine Months Ended March 31,	
	2016	2015
	(in thousands)	
Beginning balance	\$ 1,894	\$ 1,645
Additions	4,643	4,129
Utilization	(4,481)	(4,000)
Ending balance	\$ 2,056	\$ 1,774

Other Long-term liabilities:

	March 31, 2016	June 30, 2015
	(in thousands)	
Deferred rent	\$ 797	\$ 953

5. Shareholders' Equity and Share-based Compensation

Share Repurchase

In April 2015, the Board of Directors approved an increase in the remaining available amount under the Company's then effective share repurchase program from approximately \$17.8 million to \$50.0 million. The repurchases may be made from the open market pursuant to a pre-established Rule 10b5-1 trading plan (as amended, the "Repurchase Trading Plan") or through privately negotiated transactions.

In June 2015, the Company commenced a modified Dutch auction tender offer (the "Tender Offer") to repurchase an aggregate of \$30.0 million of its outstanding common shares with a price range between \$8.50 and \$9.20 per share. In July 2015, the Company completed the Tender Offer in which it purchased 3,296,703 shares of its common shares, at a purchase price of \$9.10 per share, for an aggregate purchase price of \$30.0 million, excluding fees and expenses relating to the Tender Offer. These shares represented approximately 12.53% of the total number of the Company's common shares issued and outstanding as of June 30, 2015. The Tender Offer was part of the \$50.0 million share repurchase program approved by the Board on April 15, 2015. Immediately following the completion of the Tender Offer, approximately \$18.2 million remained available under the share repurchase program.

During the nine months ended March 31, 2016, the Company repurchased 4,695,499 shares from the open market, including 3,296,703 shares in the Tender Offer, for a total cost of \$41.8 million, at an average price of \$8.90 per share, excluding fees and related expenses of \$0.3 million, under the share repurchase program. Since the inception of the program in 2010, the Company repurchased an aggregate of 5,723,093 shares from the open market for a total cost of \$50.8 million, at an average price of \$8.87 per share, excluding fees and related expenses. No repurchased shares have been retired. Of the 5,723,093 repurchased shares, 44,345 shares with a weighted average repurchase price of \$13.86 per share, were reissued at an average price of \$2.38 per share for option exercises and vested restricted share units.

ALPHA AND OMEGA SEMICONDUCTOR LIMITED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The Company accounts for treasury stock under the cost method. Shares repurchased are accounted for as treasury shares and the total cost of shares repurchased is recorded as a reduction of shareholders' equity. From time to time, treasury shares may be reissued as part of the Company's share-based compensation programs. Gains on re-issuance of treasury stock are credited to additional paid-in capital; losses are expensed to additional paid-in capital to offset the net gains, if any, from previous sales or re-issuance of treasury stock. Any remaining balance of the losses are expensed to retained earnings.

Stock Options

The following table summarizes the Company's stock option activities for the nine months ended March 31, 2016 :

	Number of Shares	Weighted Average Exercise Price Per Share	Aggregate Intrinsic Value
Outstanding at June 30, 2015	2,836,217	\$ 10.77	\$ 1,410,538
Granted	—	\$ —	
Exercised	(426,612)	\$ 7.59	\$ 844,067
Canceled or forfeited	(310,512)	\$ 12.34	
Outstanding at March 31, 2016	2,099,093	\$ 11.19	\$ 3,855,252

Information with respect to stock options outstanding and exercisable at March 31, 2016 is as follows:

	Options Outstanding			Options Vested and Exercisable	
	Number Outstanding	Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
Total options outstanding	2,099,093	4.73	\$ 11.19	1,791,713	\$ 11.80
Options vested and expected to vest	2,074,209	4.69	\$ 11.23		

Options expected to vest are the result of applying the pre-vesting forfeiture rate assumption to total outstanding options.

The fair value of stock options granted were estimated at the date of grant using the Black-Scholes option valuation model for the nine months ended March 31, 2016 with the following weighted average assumptions:

	Nine Months Ended March 31, 2016
Volatility rate	39.44% - 40.13%
Risk-free interest rate	1.6% - 1.7%
Expected term	5.5 years
Dividend yield	0%

Historically, the Company estimates its expected volatility based on that of the publicly traded shares of industry peers over a period equivalent to the expected term of the stock awards granted. Beginning in July 2015, the Company's publicly traded shares history is also included in estimating the volatility rate.

Restricted Stock Units ("RSU")

The following table summarizes the Company's RSU activities for the nine months ended March 31, 2016 :

ALPHA AND OMEGA SEMICONDUCTOR LIMITED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

	Number of Restricted Stock Units	Weighted Average Grant Date Fair Value Per Share	Weighted Average Remaining Recognition Period (Years)	Aggregate Intrinsic Value
Nonvested at June 30, 2015	873,946	\$ 8.64	1.77	\$ 7,638,288
Granted	409,079	\$ 10.93		
Vested	(271,859)	\$ 8.83		
Forfeited	(94,293)	\$ 8.78		
Nonvested at March 31, 2016	916,873	\$ 9.59	1.89	\$ 10,864,945
RSUs vested and expected to vest	776,954		1.79	\$ 9,206,903

The fair value of RSU is estimated based on the market price of the Company's share on the date of grant.

Employee Share Purchase Plan ("ESPP")

The assumptions used to estimate the fair values of common shares issued under the ESPP were as follows:

	Nine Months Ended March 31,
	2016
Volatility rate	32.2%
Risk-free interest rate	0.3% - 0.9%
Expected term	1.3 years
Dividend yield	0%

Share-based Compensation Expense

The total share-based compensation expense related to stock options, RSUs and ESPP described above, recognized in the condensed consolidated statements of operations for the periods presented was as follows:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2016	2015	2016	2015
	(in thousands)		(in thousands)	
Cost of goods sold	\$ 187	\$ 167	\$ 475	\$ 495
Research and development	309	43	766	542
Selling, general and administrative	677	730	1,806	2,282
	\$ 1,173	\$ 940	\$ 3,047	\$ 3,319

As of March 31, 2016, total unrecognized compensation cost under the Company's equity plans was \$6.0 million, which is expected to be recognized over a weighted-average period of 1.7 years.

6. Income Taxes

The Company recognized income tax expense of approximately \$1.2 million and \$0.7 million for the three months ended March 31, 2016 and 2015, respectively. The Company recognized income tax expense of approximately \$3.4 million and \$2.8 million for the nine months ended March 31, 2016 and 2015, respectively. The estimated effective tax rate for the three months ended March 31, 2016 was (2,770.5)% compared to (20.5)% for the three months ended March 31, 2015. The estimated effective tax rate for the nine months ended March 31, 2016 was (246.1)% compared to (140.5)% for the nine months ended March 31, 2015. The changes in the effective tax rate and tax expense between the periods resulted primarily from changes in the mix of earnings in various geographic jurisdictions between the current and same period of last year.

The Company files its income tax returns in the United States and in various foreign jurisdictions. The tax years 2001 to 2015 remain open to examination by U.S. federal and state tax authorities. The tax years 2009 to 2015 remain open to examination by foreign tax authorities.

ALPHA AND OMEGA SEMICONDUCTOR LIMITED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The Company's income tax returns are subject to examinations by the Internal Revenue Service and other tax authorities in various jurisdictions. In accordance with the guidance on the accounting for uncertainty in income taxes, the Company regularly assesses the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of its provision for income taxes. These assessments can require considerable estimates and judgments. As of March 31, 2016, the gross amount of unrecognized tax benefits was approximately \$6.6 million, of which \$4.4 million, if recognized, would reduce the effective income tax rate in future periods. If the Company's estimate of income tax liabilities proves to be less than the ultimate assessment, then a further charge to expense would be required. If events occur and the payment of these amounts ultimately proves to be unnecessary, the reversal of the liabilities would result in tax benefits being recognized in the period when the Company determines the liabilities are no longer necessary. The Company does not anticipate any material changes to its uncertain tax positions during the next twelve months.

On July 27, 2015, in *Altera Corp. v. Commissioner*, the U.S. Tax Court issued an opinion related to the treatment of share-based compensation expense in an intercompany cost-sharing arrangement. A final decision has yet to be issued by the Tax Court due to other outstanding issues related to the case. At this time, the U.S. Department of the Treasury has not withdrawn the requirement to include share-based compensation from its regulations. Due to the uncertainty surrounding the status of the current regulations, questions related to the scope of potential benefits, and the risk of the Tax Court's decision being overturned upon appeal, the Company has not recorded any benefit as of March 31, 2016. The Company will continue to monitor ongoing developments and potential impacts to its financial statements.

ALPHA AND OMEGA SEMICONDUCTOR LIMITED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

7. Segment and Geographic Information

The Company is organized as, and operates in, one operating segment: the design, development and supply 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 geographic region, for purposes of evaluating financial performance and allocating resources. The Company has one business segment, 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 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 a global presence, revenue by geographical location is not necessarily representative of the geographical distribution of sales to end user markets.

The revenue by geographical location in the following tables is based on the country or region to which the products were shipped to:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2016	2015	2016	2015
	(in thousands)		(in thousands)	
Hong Kong	\$ 71,684	\$ 64,610	\$ 212,041	\$ 210,135
China	9,520	10,315	26,458	30,095
South Korea	504	624	1,604	1,787
United States	726	706	2,227	2,270
Other Countries	553	663	1,921	2,176
	<u>\$ 82,987</u>	<u>\$ 76,918</u>	<u>\$ 244,251</u>	<u>\$ 246,463</u>

The following is a summary of revenue by product type:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2016	2015	2016	2015
	(in thousands)		(in thousands)	
Power discrete	\$ 63,464	\$ 59,181	\$ 182,769	\$ 185,275
Power IC	16,251	13,719	50,164	48,984
Packaging and testing services	3,272	4,018	11,318	12,204
	<u>\$ 82,987</u>	<u>\$ 76,918</u>	<u>\$ 244,251</u>	<u>\$ 246,463</u>

Long-lived assets, net consisting of property, plant and equipment, by geographical area are as follows:

	March 31, 2016	June 30, 2015
	(in thousands)	
China	\$ 65,832	\$ 71,618
United States	46,115	47,439
Other Countries	550	522
	<u>\$ 112,497</u>	<u>\$ 119,579</u>

ALPHA AND OMEGA SEMICONDUCTOR LIMITED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

8. Commitments and Contingencies

Purchase Commitments

As of March 31, 2016 and June 30, 2015, the Company had approximately \$39.4 million and \$29.2 million, respectively, of outstanding purchase commitments primarily for purchases of semiconductor raw materials, wafers, spare parts and packaging and testing services, and approximately \$8.9 million and \$3.7 million, respectively, of capital commitments for the purchase of property and equipment.

Contingencies and Indemnities

The Company is currently not a party to any pending material legal proceedings. The Company has in the past, and may from time to time in the future, become involved in legal proceedings arising from the normal course of business activities. The semiconductor industry is characterized by frequent claims and litigation, including claims regarding patent and other intellectual property rights as well as improper hiring practices. Irrespective of the validity of such claims, the Company could incur significant costs in the defense of such claims and suffer adverse effects on its operations.

The Company is a party to a variety of agreements that it has contracted with various third parties. Pursuant to these agreements, the Company may be obligated to indemnify another party to such an agreement with respect to certain matters. Typically, these obligations arise in the context of contracts entered into by the Company, under which the Company customarily agrees to hold the other party harmless against losses arising from a breach of representations and covenants related to such matters as title to assets sold, certain intellectual property rights, specified environmental matters and certain income taxes. In these circumstances, payment by the Company is customarily conditioned on the other party making a claim pursuant to the procedures specified in the particular contract, which procedures typically allow the Company to challenge the other party's claim. Further, the Company's obligations under these agreements may be limited in time and/or amount, and in some instances, the Company may have recourse against third parties for certain payments made by it under these agreements. The Company has not historically paid or recorded any material indemnifications and no accrual has been made at March 31, 2016 and June 30, 2015.

The Company has agreed to indemnify its directors and certain employees as permitted by law and pursuant to its bye-laws, and has entered into indemnification agreements with its directors and executive officers. The Company has not recorded a liability associated with these indemnification arrangements, as it historically has not incurred any material costs associated with such indemnification obligations. Costs associated with such indemnification obligations may be mitigated by insurance coverage that the Company maintains. However, such insurance may not cover any, or may cover only a portion of, the amounts the Company may be required to pay. In addition, the Company may not be able to maintain such insurance coverage in the future.

Joint Venture

In March 2016, the Company executed an agreement with two strategic investment funds owned by the Municipality of Chongqing, China to form a joint venture for a new state-of-the-art power semiconductor packaging, testing and wafer fabrication facility in Liangjiang New Area of Chongqing (the "Joint Venture"). The initial capitalization of the Joint Venture under the agreement is \$330.0 million, which includes cash contribution from the Chongqing funds and contributions of cash, equipments and intangible assets from the Company. The Company will own 51% and the Chongqing funds will own 49% of the equity interest of the Joint Venture. The Joint Venture will be accounted under the provisions of the consolidation guidance since the Company has controlling financial interest.

The Joint Venture is expected to commence its initial packaging production in 2017. Within one year, the Company will contribute cash of \$10.0 million, equipments and intangible assets. Over the long term, the Joint Venture expects to construct a 12-inch wafer fabrication facility for the production of power semiconductors.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Except for the historical information contained herein, the matters addressed in this Item 2 constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements are subject to a variety of risks and uncertainties, including those discussed below under the heading "Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q, that could cause actual results to differ materially from those anticipated by the Company's management. The Private Securities Litigation Reform Act of 1995 (the "Act") provides certain "safe harbor" provisions for forward-looking statements. All forward-looking statements made in this Quarterly Report on Form 10-Q are made pursuant to the Act. The Company undertakes no obligation to publicly release the results of any revisions to its forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unexpected events. Unless the context otherwise requires, the words "AOS," the "Company," "we," "us" and "our" refer to Alpha and Omega Semiconductor Limited and its subsidiaries.

This management's discussion should be read in conjunction with the management's discussion included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2015, filed with the Securities and Exchange Commission on August 27, 2015.

Overview

We are a designer, developer and global supplier of a broad portfolio of power semiconductors. Our portfolio of power semiconductors includes approximately 1,500 products, and has grown significantly with the introduction of over 100 new products during each of the fiscal years ended June 30, 2015, 2014 and 2013. During the nine months ended March 31, 2016, we introduced an additional 78 new products. Our teams of scientists and engineers have developed extensive intellectual properties and technical knowledge that encompass major aspects of power semiconductors, which we believe enables us to introduce and develop innovative products to address the increasingly complex power requirements of advanced electronics. We have an extensive patent portfolio that consists of 589 patents and 155 patent applications in the United States as of March 31, 2016. We differentiate ourselves by integrating our expertise in technology, design and advanced packaging to optimize product performance and cost. Our portfolio of products targets high-volume applications, including personal computers, flat panel TVs, LED lighting, smart phones, battery packs, consumer and industrial motor controls and power supplies for TVs, computers, servers and telecommunications equipment.

Our business model leverages global resources, including research and development and manufacturing in the United States and Asia. Our sales and technical support teams are localized in several growing markets. We operate a 200mm wafer fabrication facility in Hillsboro, Oregon, or the Oregon fab, which is critical for us to accelerate proprietary technology development and new product introduction as well as to improve our financial performance in the long run. To meet the market demand for more mature high volume products, we also utilize the wafer manufacturing capacity of selected third party foundries. For assembly and test, we primarily rely upon our in-house facilities in China. In addition, we utilize subcontracting partners for industry standard packages. We believe our in-house packaging and testing capability provides us with a competitive advantage in proprietary packaging technology, product quality, cost and sales cycle time.

During the second quarter of fiscal year of 2016, we introduced the industry's first single n-channel 45V MOSFET with an ultra-low on-resistance of 1.150hms at 10V. This addition to our medium voltage product portfolio is designed to address a wide range of applications including secondary-side synchronous rectification in AC/DC and DC/DC converters, as well as industrial and motor drive applications. We also released AOC3864, a common-drain 20V dual n-channel MOSFET with an ultra-low on-resistance of 5.7mOhms at 4.5V. This new device offers the best approach in designing battery protection circuit modules, while providing a strong and reliable solution. In addition, we introduced the new generation of high efficiency PairFETs. The AOE6930 is an asymmetric package with integrated high-side and low-side MOSFETs. The product is designed with our latest silicon technology to optimize the conducting resistance and the switching characteristics of both MOSFETs in order to attain the highest efficiency over the whole output range when working as the power stage for a Vcore power supply circuit. The combination of AOS's XSFET™ technology in this new generation PairFET package, gives the device an extra advantage in thermal dissipation. Moreover, we released the AOZ3101, a high efficiency, simple-to-use synchronous buck regulator, with an operating input voltage range from 4.5V to 18V, supplying 2A of continuous current. The device offers a low on-resistance power stage in a thermally enhanced 3mm x 3mm DFN package, allowing cooler power conversion for a variety of consumer electronics application such as LCD TVs, set-top boxes, as well as DVD players and recorders. During the first quarter of fiscal year of 2016, we released AO4294, the latest addition to our family of high efficiency charging solutions. This new device is offered in an easy-to-use SO-8 package, which helps manufacturers keep the mounting cost low, while still getting the best efficiency and

power dissipation possible. The AO4294 is an ideal solution for synchronous rectification in high efficiency chargers and adapters for mobile devices. We also released AOZ3053, a 5A EZBuck DC/DC regulator with smart mode adaption functions, available in a thermally enhanced exposed pad SO-8 package. The AOZ3053 is the first of this new smart platform, which allows for more thermally efficient DC/DC solutions for consumer, networking and industrial applications such as LCD TVs, set-top boxes, cable modems, and power supplies.

On March 29, 2016, we entered into a joint venture contract (the “JV Agreement”) with two investment funds affiliated with the municipalities of Chongqing (the “Chongqing Funds”), pursuant to which we and Chongqing Funds will form a joint venture, (the “JV Company”), for the purpose of constructing a power semiconductor packaging, testing and wafer fabrication facility in the Liangjiang New Area of Chongqing, China (the “JV Transaction”). The total initial capitalization of the JV Company will be \$330.0 million (the “Initial Capitalization”). The Initial Capitalization will be completed in stages commencing on the incorporation of the JV Company. We will own 51%, and the Chongqing Funds will own 49%, of the equity interest in the JV Company. We expect the JV company to commence operation by July 2017.

Over the long term, the JV Company expects to construct a 12-inch wafer fabrication facility for the production of power semiconductors. We expect the joint venture to deliver significant cost savings as well as drive meaningful improvements in working capital and capital expenditures.

Factors affecting our performance

Our performance is affected by several key factors, including the following:

The global, regional economic and PC market conditions : Because our products primarily serve consumer electronic applications, a deterioration of the global and regional economic conditions could materially affect our revenue and results of operations. In particular, because a significant amount of our revenue is derived from sales of products in the personal computing (“PC”) markets, such as notebooks, motherboards and notebook battery packs, a significant decline or downturn in the PC market can have a material adverse effect on our revenue and results of operations. Our revenue from the PC market accounted for approximately 36.4% and 47.3% of our total revenue for the three months ended March 31, 2016 and 2015, respectively, and 42.2% and 47.1% for the nine months ended March 31, 2016 and 2015, respectively. Since the beginning of calendar year 2013, we have experienced a significant global decline in the PC market due to continued growth of demand in tablets and smart phones, worldwide economic conditions and the industry inventory correction which had and may continue to have a material negative impact on the demand for our products, revenue, factory utilization, gross margin, our ability to resell excess inventory, and other performance measures.

In response to this trend, we continue to execute our strategies of diversifying our portfolio of products and expanding into other market segments, including the consumer, communications and industrial market segments, improving gross margin and profit by implementing cost control measures. While making progress in reducing our reliance on the PC market, we continue to support our computing business and capitalize on opportunities with a more focused and competitive PC product strategy. As we develop and sell new products that serve more diversified markets, we expect sales based on the PC market, as a percentage of the total revenue to decline. If the rate of decline in the PC market is faster than our expectation, or if we cannot successfully diversify or introduce new products to offset the decline in the PC market, we may not be able to alleviate its negative impact on our operating results.

Manufacturing costs : Our gross margin may be affected by our manufacturing costs, including utilization of our manufacturing facilities, pricing of wafers from third party foundries and semiconductor raw materials, which may fluctuate from time to time largely due to the market demand and supply. Capacity utilization affects our gross margin because we have certain fixed costs associated with our packaging and testing facilities and our Oregon fab. If we are unable to utilize our manufacturing facilities at a desired level, our gross margin may be adversely affected. In addition, we expect that in the long term our joint venture agreement with the Chongqing Funds will reduce our costs of manufacturing. However, our manufacturing costs may increase in the short term prior to the commencement of operation of the JV Company, because we may be required to incur additional costs to acquire packaging and testing capacity in order make up for the reduced capacity during the period in which we transfer our equipments from Shanghai to Chongqing.

Erosion of average selling price: Erosion of average selling prices of established products is typical in our industry. Consistent with this historical trend, we expect our average selling prices of existing products to decline in the future. However, in the normal course of business, we seek to offset the effect of declining average selling price by introducing new and higher value products, expanding existing products for new applications and new customers and reducing the manufacturing cost of existing products.

Product introductions and customers' product requirements: Our success depends on our ability to introduce products on a timely basis that meet or are compatible with our customers' specifications and performance requirements. Both factors, timeliness of product introductions and conformance to customers' requirements, are equally important in securing design wins with our customers. As we accelerate the development of new technology platforms, we expect to increase the pace at which we introduce new products and obtain design wins. Our failure to introduce new products on a timely basis that meet customers' specifications and performance requirements, particularly those products with major OEM customers, and our inability to continue to expand our serviceable markets, could adversely affect our financial performance, including loss of market share. We expect our joint venture with Chongqing Funds to commence operation in July 2017, and we believe that the joint venture will increase and diversify our customer base, particularly in China, in the long term. However, there is no guarantee that the joint venture will commence timely or at all. Even if we are able to commence operation, we may not be successful in acquiring a sufficient number of new customers to offset the additional costs due to various factors, including but are not limited to, competition from other semiconductor companies in the region, our lack of history and prior relationships with customers as a new entrant, difficulties in executing our joint venture strategies, lack of control over our operations and the general economic conditions in Chongqing and China.

Distributor ordering patterns and seasonality : Our distributors place purchase orders with us based on their forecasts of end customer demand, and this demand may vary significantly depending on the sales outlook and market and economic conditions of end customers. Because these forecasts may not be accurate, channel inventory held at our distributors may fluctuate significantly, which in turn may prompt distributors to make significant adjustments to their purchase orders placed with us. As a result, our revenue and operating results may fluctuate significantly from quarter to quarter. In addition, because our products are used in consumer electronics products, our revenue is subject to seasonality. Our sales seasonality is affected by numerous factors, including global and regional economic conditions as well as the PC market conditions, revenue generated from new products, changes in distributor ordering patterns in response to channel inventory adjustments and end customer demand for our products and fluctuations in consumer purchase patterns prior to major holiday seasons. In recent periods, broad fluctuations in the semiconductor markets and the global and regional economic conditions, in particular the decline of the PC market conditions, have had a more significant impact on our results of operations than seasonality.

Principal line items of statements of operations

The following describes the principal line items set forth in our condensed consolidated statements of operations:

Revenue

We generate revenue primarily from the sale of power semiconductors, consisting of power discretes and power ICs. Historically, a majority of our revenue was derived from power discrete products and a smaller amount was derived from power IC products. Because our products typically have three to five year life cycles, the rate of new product introduction is an important driver of revenue growth over time. We believe that expanding the breadth of our product portfolio is important to our business prospects, because it provides us with an opportunity to increase our total bill-of-materials within an electronic system and to address the power requirements of additional electronic systems. In addition, a small percentage of our total revenue is generated by providing packaging and testing services to third-parties through one of our subsidiaries.

Our product revenue includes the effect of the estimated stock rotation returns and price adjustments that we expect to provide to our distributors. Stock rotation returns are governed by contract and are limited to a specified percentage of the monetary value of products purchased by the distributor during a specified period. At our discretion or upon our direct negotiations with the original design manufacturers ("ODMs") or original equipment manufacturers ("OEMs"), we may elect to grant special pricing that is below the prices at which we sold our products to the distributors. In these situations, we will grant price adjustments to the distributors reflecting such special pricing. We estimate the price adjustments for inventory at the distributors based on factors such as distributor inventory levels, pre-approved future distributor selling prices, distributor margins and demand for our products.

Cost of goods sold

Our cost of goods sold primarily consists of costs associated with semiconductor wafers, packaging and testing, personnel, including share-based compensation expense, overhead attributable to manufacturing, operations and procurement, and cost associated with yield improvements, capacity utilization, warranty and inventory reserves. As the volume of sales increases, we expect cost of goods sold to increase. We implemented a process to improve our factory capacity utilization rates by transferring more wafer production to our Oregon fab and reducing our reliance on outside foundries. While our utilization rates cannot be immune to market conditions, our goal is to make such rates less vulnerable to market fluctuations. We believe our market

diversification strategy and product growth will drive higher volumes of manufacturing which will improve our factory utilization rates and gross margin in the long run.

Operating expenses

Our operating expenses consist of research and development, selling, general and administrative expenses. We expect our operating expenses as a percentage of revenue to fluctuate from period to period as we continue to exercise cost control measures in response to the declining PC market as well as align our operating expenses to the revenue level.

Research and development expenses. Our research and development expenses consist primarily of salaries, bonuses, benefits, share-based compensation expense, expenses associated with new product prototypes, travel expenses, fees for engineering services provided by outside contractors and consultants, amortization of software and design tools, depreciation of equipment and overhead costs. We continue to invest in developing new technologies and products utilizing our own fabrication and packaging facilities as it is critical to our long-term success. We also evaluate appropriate investment levels and stay focused on new product introductions to improve our competitiveness. We expect that our research and development expenses will fluctuate from time to time.

Selling, general and administrative expenses. Our selling, general and administrative expenses consist primarily of salaries, bonuses, benefits, share-based compensation expense, product promotion costs, occupancy costs, travel expenses, expenses related to sales and marketing activities, amortization of software, depreciation of equipment, maintenance costs and other expenses for general and administrative functions as well as costs for outside professional services, including legal, audit and accounting services. We expect our selling, general and administrative expenses to fluctuate in the near future as we continue to exercise cost control measures in response to the declining PC market.

Impairment of Long-Lived Assets: Long-lived assets or asset groups are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset might not be recoverable. The recoverability of an asset or asset group is assessed by determining if the carrying value of the asset or asset group exceeds the sum of the projected undiscounted cash flows expected to result from the use and eventual disposition of the assets over the remaining economic life. The impairment loss is measured based on the difference between the carrying amount and estimated fair value.

Income tax expense

We are subject to income taxes in various jurisdictions. Significant judgment and estimates are required in determining our worldwide income tax expense. The calculation of tax liabilities involves dealing with uncertainties in the application of complex tax regulations of different jurisdictions globally. We establish accruals for potential liabilities and contingencies based on a more likely than not threshold to the recognition and de-recognition of uncertain tax positions. If the recognition threshold is met, the applicable accounting guidance permits us to recognize a tax benefit measured at the largest amount of tax benefit that is more likely than not to be realized upon settlement with a taxing authority. If the actual tax outcome of such exposures is different from the amounts that were initially recorded, the differences will impact the income tax and deferred tax provisions in the period in which such determination is made. Changes in the location of taxable income (loss) could result in significant changes in our income tax expense.

We record a valuation allowance against deferred tax assets if it is more likely than not that a portion of the deferred tax assets will not be realized, based on historical profitability and our estimate of future taxable income in a particular jurisdiction. Our judgments regarding future taxable income may change due to changes in market conditions, changes in tax laws, tax planning strategies or other factors. If our assumptions and consequently our estimates change in the future, the deferred tax assets may increase or decrease, resulting in corresponding changes in income tax expense. Our effective tax rate is highly dependent upon the geographic distribution of our worldwide profits or losses, the tax laws and regulations in each geographical region where we have operations, the availability of tax credits and carry-forwards and the effectiveness of our tax planning strategies.

Reclassifications and Correction of Errors

In the Management's Discussion and Analysis of Financial Condition and Results of Operations section of this report, certain prior period financial information has been either reclassified to conform with current presentation or restated. For a complete overview on adjustments impacting Management's Discussion and Analysis of Financial Condition and Results of Operations, see Note 1 of the Notes to the Condensed Consolidated Financial Statements contained in this Quarterly Report on Form 10-Q.

Results of Operations

The following tables set forth statements of operations, also expressed as a percentage of revenue, for the three and nine months ended March 31, 2016 and 2015. Our historical results of operations are not necessarily indicative of the results for any future period.

	Three Months Ended March 31,				Nine Months Ended March 31,			
	2016	2015	2016	2015	2016	2015	2016	2015
	(in thousands)		(% of revenue)		(in thousands)		(% of revenue)	
Revenue	\$ 82,987	\$ 76,918	100.0 %	100.0 %	\$ 244,251	\$ 246,463	100.0 %	100.0 %
Cost of goods sold	66,668	64,154	80.3 %	83.4 %	197,899	200,297	81.0 %	81.3 %
Gross profit	16,319	12,764	19.7 %	16.6 %	46,352	46,166	19.0 %	18.7 %
Operating expenses								
Research and development	6,924	6,929	8.3 %	9.0 %	19,029	20,155	7.8 %	8.2 %
Selling, general and administrative	9,444	9,219	11.4 %	12.0 %	28,300	27,958	11.6 %	11.3 %
Impairment of long-lived assets	—	—	— %	— %	432	—	0.2 %	— %
Total operating expenses	16,368	16,148	19.7 %	21.0 %	47,761	48,113	19.6 %	19.5 %
Operating loss	(49)	(3,384)	— %	(4.4)%	(1,409)	(1,947)	(0.6)%	(0.8)%
Interest income and other, net	10	18	— %	— %	30	92	— %	— %
Interest expense	(5)	(41)	— %	— %	(22)	(157)	— %	(0.1)%
Loss before income taxes	(44)	(3,407)	— %	(4.4)%	(1,401)	(2,012)	(0.6)%	(0.8)%
Income tax expense	1,219	698	1.5 %	0.9 %	3,448	2,826	1.4 %	1.1 %
Net loss	\$ (1,263)	\$ (4,105)	(1.5)%	(5.3)%	\$ (4,849)	\$ (4,838)	(2.0)%	(2.0)%

Share-based compensation expense was allocated as follow:

	Three Months Ended March 31,				Nine Months Ended March 31,			
	2016	2015	2016	2015	2016	2015	2016	2015
	(in thousands)		(% of revenue)		(in thousands)		(% of revenue)	
Cost of goods sold	\$ 187	\$ 167	0.2%	0.2%	\$ 475	\$ 495	0.2%	0.2%
Research and development	309	43	0.4%	0.1%	766	542	0.3%	0.2%
Selling, general and administrative	677	730	0.8%	0.9%	1,806	2,282	0.7%	0.9%
Total	\$ 1,173	\$ 940	1.4%	1.2%	\$ 3,047	\$ 3,319	1.2%	1.3%

Three and Nine Months Ended March 31, 2016 and 2015

Revenue

The following is a summary of revenue by product type:

	Three Months Ended March 31,				Nine Months Ended March 31,			
	2016	2015	Change		2016	2015	Change	
	(in thousands)		(in thousands)	(in percentage)	(in thousands)		(in thousands)	(in percentage)
Power discrete	\$ 63,464	\$ 59,181	\$ 4,283	7.2 %	\$ 182,769	\$ 185,275	\$ (2,506)	(1.4)%
Power IC	16,251	13,719	2,532	18.5 %	50,164	48,984	1,180	2.4 %
Packaging and testing services	3,272	4,018	(746)	(18.6)%	11,318	12,204	(886)	(7.3)%
	<u>\$ 82,987</u>	<u>\$ 76,918</u>	<u>\$ 6,069</u>	<u>7.9 %</u>	<u>\$ 244,251</u>	<u>\$ 246,463</u>	<u>\$ (2,212)</u>	<u>(0.9)%</u>

Total revenue was \$83.0 million for the three months ended March 31, 2016 , an increase of \$6.1 million , or 7.9% , as compared to \$76.9 million for the same quarter last year. The increase primarily consisted of \$4.3 million and \$2.5 million in sales of power discrete products and power IC products, respectively. The increase in power discrete and power IC products was primarily due to a 15.8% increase in average selling price as compared to the same period last year due to a shift in product mix, partially offset by a 5.6% decrease in unit shipments. The decrease in packaging and testing services revenue for the three months ended March 31, 2016 compared to the same period last year was primarily due to reduced demand as a result of the decline in PC market.

Total revenue was \$244.3 million for the nine months ended March 31, 2016 , a decrease of \$2.2 million , or 0.9% , as compared to \$246.5 million for the same period last year. The decrease was primarily due to a \$2.5 million decrease in sales of power discrete products, partially offset by \$1.2 million increase in sales of power IC products. The net decrease in product revenue, including power discrete and power IC products was mainly a result of a 8.8% decrease in unit shipments, partially offset by a 9.3% increase in average selling price mainly due to a shift in product mix. The decrease in revenue of packaging and testing services for the nine months ended March 31, 2016 compared to the same period last year was primarily due to reduced demand as a result of the declining PC market.

Cost of goods sold and gross profit

	Three Months Ended March 31,				Nine Months Ended March 31,			
	2016	2015	Change		2016	2015	Change	
	(in thousands)		(in thousands)	(in percentage)	(in thousands)		(in thousands)	(in percentage)
Cost of goods sold	\$ 66,668	\$ 64,154	\$ 2,514	3.9%	\$ 197,899	\$ 200,297	\$ (2,398)	(1.2)%
Percentage of revenue	80.3%	83.4%			81.0%	81.3%		
Gross profit	\$ 16,319	\$ 12,764	\$ 3,555	27.9%	\$ 46,352	\$ 46,166	\$ 186	0.4 %
Percentage of revenue	19.7%	16.6%			19.0%	18.7%		

Cost of goods sold was \$66.7 million for the three months ended March 31, 2016 , an increase of \$2.5 million , or 3.9% , as compared to \$64.2 million for the same quarter last year. The increase was primarily due to product mix, partially offset by decrease in unit shipments. The increase was partially offset by the overall manufacturing cost reduction as compared to the same period last year. Gross margin increased by 3.1% point to 19.7% for the three months ended March 31, 2016 as compared to 16.6% for the same period last year. The increase in gross margin was primarily due to better product mix and higher factory utilization during the three months ended March 31, 2016.

Cost of goods sold was \$197.9 million for the nine months ended March 31, 2016 , a decrease of \$2.4 million , or 1.2% , as compared to \$200.3 million for the same period last year. The decrease was primarily due to decreased unit shipments. The decrease was partially offset by the overall increase in manufacturing cost due to lower factory utilization as compared to the same period last year. Gross margin for the nine months ended March 31, 2016 and 2015 remained flat.

Research and development expenses

	Three Months Ended March 31,				Nine Months Ended March 31,			
	2016	2015	Change		2016	2015	Change	
	(in thousands)	(in thousands)	(in thousands)	(in percentage)	(in thousands)	(in thousands)	(in thousands)	(in percentage)
Research and development	\$ 6,924	\$ 6,929	\$ (5)	(0.1)%	\$ 19,029	\$ 20,155	\$ (1,126)	(5.6)%

Research and development expenses were \$6.9 million for the three months ended March 31, 2016 and 2015. The slight decrease was primarily attributable to a \$0.2 million decrease in product prototyping engineering expenses as a result of reduced engineering activities, as well as a \$0.1 million decrease in employee travel expenses as a result of continued operational and cost control effort, partially offset by a \$0.3 million increase in share-based compensation expense as a result of a decrease in cancellation of stock options and award in the current quarter.

Research and development expenses were \$19.0 million for the nine months ended March 31, 2016, a decrease of \$1.1 million, or 5.6%, as compared to \$20.2 million for the same period last year. The decrease was primarily attributable to a \$0.3 million decrease in product prototyping engineering expenses as a result of reduced engineering activities, a \$0.5 million decrease in employee compensation expenses primarily due to lower headcount in current period, and severance payment related to the resignation of our Chief Technology Officer during the same period last year, as well as a \$0.2 million decrease in employee travel expenses and \$0.1 million decrease in facilities expenses as a result of continued cost control effort during the current period as compared to the same period last year.

Selling, general and administrative expenses

	Three Months Ended March 31,				Nine Months Ended March 31,			
	2016	2015	Change		2016	2015	Change	
	(in thousands)	(in thousands)	(in thousands)	(in percentage)	(in thousands)	(in thousands)	(in thousands)	(in percentage)
Selling, general and administrative	\$ 9,444	\$ 9,219	\$ 225	2.4%	\$ 28,300	\$ 27,958	\$ 342	1.2%

Selling, general and administrative expenses were \$9.4 million for the three months ended March 31, 2016, an increase of \$0.2 million, or 2.4%, as compared to \$9.2 million for the same quarter last year. The increase was primarily due to \$0.3 million increase in employee compensation and benefits related to severance payments and higher bonus expenses. These increases were partially offset by a \$0.1 million decrease in depreciation and amortization expense as a result of certain fully depreciated assets.

Selling, general and administrative expenses were \$28.3 million for the nine months ended March 31, 2016, an increase of \$0.3 million, or 1.2%, as compared to \$28.0 million for the same period last year. The increase was primarily due to \$0.6 million increase in foreign exchange losses from appreciation of USD against RMB for current period over prior year same period, a \$0.2 million increase in audit and tax fees due to increased related consulting activities, and a \$0.4 million increase in employee compensation and benefits mainly due to an increase in headcount. The increase was partially offset by \$0.4 million decrease in depreciation and amortization expense as a result of certain fully depreciated assets and \$0.5 million decrease in share-based compensation expense primarily as a result of a decrease in equity award grants and an increase in cancellation of stock options and restricted share unit awards related to the resignation of an executive officer during the current period.

Impairment of long-lived assets

During the quarter ended December 31, 2015, we identified certain manufacturing equipments purchased for projects that were subsequently canceled. Because the equipments had no alternative uses, we recorded an asset impairment expense of approximately \$0.4 million related to these equipments during the quarter ended December 31, 2015.

Interest income and expenses

Interest income was primarily related to interest earned from cash and cash equivalents. The decrease in interest income during the three and nine months ended March 31, 2016 as compared to the same periods last year was primarily due to the decrease in average cash balances.

Interest expense was primarily related to bank borrowings. The decrease in interest expenses during the nine months ended March 31, 2016 as compared to the same periods last year was primarily due to the \$20.0 million term loan obtained in May 2012 for our Oregon fab which was fully repaid in May 2015.

Income tax expense

	Three Months Ended March 31,				Nine Months Ended March 31,			
	2016	2015	Change		2016	2015	Change	
	(in thousands)		(in thousands)	(in percentage)	(in thousands)		(in thousands)	(in percentage)
Income tax expense	\$ 1,219	\$ 698	\$ 521	74.6%	\$ 3,448	\$ 2,826	\$ 622	22.0%

We recognized income tax expense of approximately \$1.2 million and \$0.7 million for the three months ended March 31, 2016 and 2015, respectively, and approximately \$3.4 million and \$2.8 million for the nine months ended March 31, 2016 and 2015, respectively.

The income tax expense for the three and nine months ended March 31, 2016 and 2015 was higher than the tax expense for the same periods last year primarily due to the changes in the mix of earnings in various geographic jurisdictions between the current and same period of last year.

Liquidity and Capital Resources

Our principal need for liquidity and capital resources is to maintain sufficient working capital to support our operations and to invest adequate capital expenditures to grow our business. Currently, we financed our operations and capital expenditures primarily through funds generated from operations.

In April 2015, our Board of Directors of the Company approved an increase in the remaining available amount under the Company's then effective share repurchase program from approximately \$17.8 million to \$50.0 million. The repurchases may be made from the open market pursuant to a pre-established Rule 10b5-1 trading plan (as amended, the "Repurchase Trading Plan") or through privately negotiated transactions. The amount and timing of any repurchases depend on a number of factors, including but not limited to, the trading price, volume and availability of our common shares, applicable legal requirements, our business and financial conditions and general market environment. There is no guarantee that such repurchases under the Program will enhance the value of our shares.

In June 2015, we commenced a modified Dutch auction tender offer (the "Tender Offer") to repurchase an aggregate of \$30.0 million of our outstanding common shares with a price range between \$8.50 and \$9.20 per share. In July 2015, we completed the Tender Offer in which we purchased 3,296,703 shares of its common shares, at a purchase price of \$9.10 per share, for an aggregate purchase price of \$30.0 million, excluding fees and expenses relating to the Tender Offer. These shares represented approximately 12.53% of the total number of the Company's common shares issued and outstanding as of June 30, 2015. The Tender Offer was part of the \$50.0 million share repurchase program approved by the Board on April 15, 2015.

During the nine months ended March 31, 2016, we repurchased a total of 4,695,499 shares from the open market, including 3,296,703 common shares in the Tender Offer, for a total cost of \$41.8 million, at an average price of \$8.90 per share, excluding fees and related expenses of \$0.3 million, under the share repurchase program. Since the inception of the program in 2010, the Company repurchased an aggregate of 5,723,093 shares from the open market for a total cost of \$50.8 million, at an average price of \$8.87 per share, excluding fees and related expenses. As of March 31, 2016, approximately \$6.4 million remained available under the share repurchase program. Shares repurchased are accounted for as treasury shares and the total cost of shares repurchased is recorded as a reduction of shareholders' equity.

We believe that our current cash and cash equivalents and cash flows from operations will be sufficient to meet our anticipated cash needs, including working capital and capital expenditures, for at least the next twelve months. We may require additional capital due to changing business conditions or other future developments, including any investments or acquisitions we may decide to pursue. If our cash is insufficient to meet our needs, we may seek to raise capital through equity or debt financing. The sale of additional equity securities could result in dilution to our shareholders. The incurrence of indebtedness would result in increased debt service obligations and may include operating and financial covenants that would restrict our operations. We cannot be certain that any financing will be available in the amounts we need or on terms acceptable to us, if at all.

Cash and cash equivalents

As of March 31, 2016 and June 30, 2015, we had \$78.9 million and \$106.1 million of cash and cash equivalents, respectively. Our cash and cash equivalents primarily consisted of cash on hand and short-term bank deposits with original maturities of three months or less.

The following table shows our cash flows from operating, investing and financing activities for the periods indicated:

	Nine Months Ended March 31,	
	2016	2015
	(in thousands)	
Net cash provided by operating activities	\$ 26,361	\$ 18,214
Net cash used in investing activities	(13,755)	(12,530)
Net cash used in financing activities	(39,684)	(10,492)
Effect of exchange rate changes on cash and cash equivalents	(84)	(49)
Net decrease in cash and cash equivalents	\$ (27,162)	\$ (4,857)

Cash flows from operating activities

Net cash provided by operating activities of \$26.4 million for the nine months ended March 31, 2016 reflect our net loss of \$4.8 million, offset by non-cash expenses of \$25.0 million and net changes in assets and liabilities of \$6.2 million. The non-cash expenses of \$25.0 million include \$20.7 million of depreciation and amortization expenses, \$3.0 million of share-based compensation expense, \$0.4 million of impairment of long-lived assets and \$0.8 million of deferred income taxes. The net changes in assets and liabilities of \$6.2 million were primarily due to \$6.7 million decrease in accounts receivable from timing of billings and collection of payments, \$2.3 million increase in accounts payable due to timing of payment, \$0.3 million increase in income taxes payable and \$3.1 million increase in accrued and other liabilities, partially offset by a \$3.7 million increase in inventories as well as a \$2.5 million increase in other current and long term assets due to increase in advance payments to vendors.

Net cash provided by operating activities of \$18.2 million for the nine months ended March 31, 2015 reflect our net loss of \$4.8 million and net changes in assets and liabilities of \$0.9 million, offset by non-cash expenses of \$23.9 million. The non-cash expenses of \$23.9 million include \$20.8 million of depreciation and amortization expenses and \$3.3 million of share-based compensation expense, partially offset by a \$0.3 million of forgiveness of the loan from the State of Oregon during the period. The net changes in assets and liabilities of \$0.9 million were primarily due to a \$5.0 million decrease in accounts payable mainly due to timing of payment, \$0.9 million increase in other current and long term assets primarily due to increase in advance payments to vendors and \$0.8 million decrease in income taxes payable, partially offset by \$5.6 million decrease in accounts receivable due to the timing of billings and collection of payments, \$0.2 million decrease in inventories as we reduced our inventories and \$0.1 million increase in accrued and other liabilities.

Cash flows from investing activities

Net cash used in investing activities of \$13.8 million and \$12.5 million for the nine months ended March 31, 2016 and 2015, respectively, was primarily attributable to purchases of property and equipment to increase our in-house production capacity during the period.

Cash flows from financing activities

Net cash used in financing activities of \$39.7 million for the nine months ended March 31, 2016 was primarily attributable to \$42.1 million repurchases of common shares, including the repurchases in the Tender Offer, \$0.9 million in common shares acquired to settle withholding tax related to vesting of restricted stock units and \$0.7 million in payment of capital lease obligations, partially offset by \$4.1 million of proceeds from exercise of stock options and issuance of shares under the ESPP.

Net cash used in financing activities of \$10.5 million for the nine months ended March 31, 2015 was primarily attributable to \$7.1 million of repayment of our borrowings, \$4.0 million in repurchases of common shares under the Company's repurchase Program, \$0.5 million in common shares acquired to settle withholding tax related to vesting of restricted stock units and \$0.8 million in payment of capital lease obligations, partially offset by \$1.9 million of proceeds from exercises of stock options and issuance of shares under the ESPP.

Capital expenditures

Capital expenditures were \$13.8 million and \$12.6 million for the nine months ended March 31, 2016 and 2015, respectively. Our capital expenditures primarily consisted of purchases of equipment for our packaging and testing services and for our Oregon fab as well as for upgrading our operational and financial systems. The increase in capital expenditure was primarily due to the additional purchases of equipment and assets to improve our technology and support our new product introductions to fuel business growth.

Commitments

As of March 31, 2016 and June 30, 2015, we had approximately \$39.4 million and \$29.2 million, respectively, of outstanding purchase commitments primarily for purchases of semiconductor raw materials, wafers, spare parts and packaging and testing services.

As of March 31, 2016 and June 30, 2015, we had approximately \$8.9 million and \$3.7 million, respectively, of capital commitments for the purchase of property and equipment.

Joint Venture Commitments

In March 2016, we executed an agreement with two strategic investment funds owned by the Municipality of Chongqing, China to form a joint venture for a new state-of-the-art power semiconductor packaging, testing and wafer fabrication facility in Liangjiang New Area of Chongqing (the "Joint Venture"). The Joint Venture is expected to commence its initial packaging production in 2017. Within one year, the Company will contribute cash of \$10.0 million, equipments and intangible assets.

Off-Balance Sheet Arrangements

As of March 31, 2016, we had no material off-balance sheet arrangements as defined in Regulation S-K 303(a)(4)(ii) arrangements.

Contractual Obligations

There were no material changes in our contractual obligations, as disclosed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2015.

Recent Accounting Pronouncements

See [Note 1](#) of the Notes to the Condensed Consolidated Financial Statements contained in this Quarterly Report on Form 10-Q for a description of recent accounting pronouncements, including the expected dates of adoption and estimated effects on results of operations and financial condition, which is incorporated herein by reference.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in the market risks previously disclosed in Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," of our Annual Report on Form 10-K for the year ended June 30, 2015, filed with the SEC on August 27, 2015.

ITEM 4. CONTROLS AND PROCEDURES

Management's Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, (the "Exchange Act")), as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of March 31, 2016 have been designed and are functioning effectively to provide reasonable assurance that the information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the three months ended March 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitation on Effectiveness of Controls

While our disclosure controls and procedures and internal control over financial reporting are designed to provide reasonable assurance that their respective objectives will be met, we do not expect that our disclosure controls and procedures or our internal control over financial reporting are or will be capable of preventing or detecting all errors and all fraud. Any control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are currently not a party to any material legal proceedings. We have in the past, and may from time to time in the future, become involved in legal proceedings arising from the normal course of business activities. The semiconductor industry is characterized by frequent claims and litigation, including claims regarding patent and other intellectual property rights as well as improper hiring practices. Irrespective of the validity of such claims, we could incur significant costs in the defense thereof or could suffer adverse effects on its operations.

ITEM 1A. RISK FACTORS

In addition to the risk factors below, Item 1A of Part I of our Annual Report on Form 10-K for the year ended June 30, 2015, filed with the SEC on August 27, 2015, contains risk factors identified by the Company. Except for the risk factors below, there have been no material changes to the risk factors we previously disclosed. Our operations could also be affected by additional factors that are not presently known to us or by factors that we currently consider immaterial to our business.

We may not be able to realize the anticipated benefits and advantages from our joint venture with the Chongqing government.

In March 2016, we entered into a joint venture contract (the “JV Agreement”) with two investment funds owned by the municipalities of Chongqing, China (the “Chongqing Funds”), pursuant to which we and the Chongqing Funds will form a joint venture (the “JV Company”), for the purpose of constructing a power semiconductor packaging/testing and wafer fabrication facility. The total initial capitalization of the JV Company will be \$330.0 million (the “Initial Capitalization”), which consists of (i) a total of \$ 162.0 million of cash contribution from the Chongqing Funds; (ii) \$74.0 million of existing packaging and testing equipment owned by us located in Shanghai, China; (iii) certain intellectual property rights, including patents, held by us relating to the manufacturing technology valued at \$84.0 million; and (iv) \$10.0 million of cash contribution by us. We will own 51%, and the Chongqing Funds will own 49%, of the equity interest in the JV Company. The Initial Capitalization will be completed in stages and we expect the JV Company to commence operation in July 2017.

We may encounter unanticipated difficulties and obstacles that may delay or prevent the commencement of the JV Company's operation, some of which are outside of our control. These difficulties may include unexpected costs or delays in transferring our assembly and testing operations to the new facility; inability to coordinate and integrate the labor forces; delays in obtaining the necessary Chinese government approval to establish the joint venture; failure of the Chongqing Funds to meet their obligations under the JV Agreement; and inability to provide customers with required services. In addition, we may not be able to fully utilize our packaging and testing capacity during the period when our facilities are being transferred from Shanghai to Chongqing, which may negatively impact our business and results of operations.

Even if the joint venture is able to commence operation, we may not fully realize the anticipated benefits of the project, such as cost savings, improvement in working capital, increased gross margin, revenue and profitability, enhanced market share for our products; and increased diversification of our products and customers. The establishment and operation of a new manufacturing facility involve significant risks and challenges, including, but are not limited to, the following:

- Inability to gain or sustain sufficient new customers and market shares to offset the additional costs of building and operating a new facility;
- Lack of sufficient control over the operation and finances of the joint venture;
- Insufficient personnel with requisite expertise and experiences to operate a 12-in fabrication facility;
- Inability to fully integrate the joint venture with our existing fabrication facility in Oregon, and inability to fully utilize both fabrication facilities;
- Failure of Chongqing Funds to meet its obligations under the JV Agreement;
- Difficulties in protecting and enforcing our intellectual property rights;
- Difficulties in maintaining international communications and coordination between our locations in the U.S. and China;
- Inability to take advantage of the expected tax savings;

- Changes or uncertainties in economic, legal, regulatory, social and political conditions in China, and lack of transparency and certainty in the Chinese regulatory process;
- Labor disputes and difficulties in recruiting new employees; and
- Additional costs and complexity with compliance of local and state regulations of Chongqing.

Any of the foregoing risks could materially reduce the expected return of our investment in the joint venture and adversely affects our business operations, financial performance and the trading price of our shares.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

In April 2015, our Board of Directors of the Company approved an increase in the remaining available amount under the Company's then existing share repurchase program from approximately \$17.8 million to \$50.0 million. Under this program, the repurchases may be made from the open market pursuant to a pre-established Rule 10b5-1 trading plan (as amended, the "Repurchase Trading Plan") or through privately negotiated transactions. The amount and timing of any repurchases depend on a number of factors, including but not limited to, the trading price, volume and availability of our common shares, applicable legal requirements, our business and financial conditions and general market environment. There is no guarantee that any repurchases under the program will be made or that such repurchases would enhance the value of our shares.

In June 2015, the Company commenced a modified Dutch auction tender offer (the "Tender Offer") to repurchase an aggregate of \$30.0 million of its outstanding common shares with a price range between \$8.50 and \$9.20 per share. In July 2015, the Company completed the Tender Offer in which it purchased 3,296,703 shares of its common shares, at a purchase price of \$9.10 per share, for an aggregate purchase price of \$30.0 million, excluding fees and expenses relating to the Tender Offer. These shares represented approximately 12.53% of the total number of the Company's common shares issued and outstanding as of June 30, 2015. The Tender Offer was part of the \$50.0 million share repurchase program approved by the Board in April 15, 2015.

The following table sets forth the share repurchases under this program during the third fiscal quarter ended March 31, 2016 .

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Be Purchased Under the Plans or Programs
January 1, 2016 to January 31, 2016	184,017	\$ 8.82	184,017	
February 1, 2016 to February 29, 2016	20,107	\$ 9.61	20,107	
March 1, 2016 to March 31, 2016	—	\$ —	—	
Total repurchase during the three months ended March 31, 2016	204,124	\$ 8.90	204,124	\$ 6,404,000

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

10.1 +	Joint Venture Contract on Incorporation of Chongqing Alpha and Omega Semiconductor Limited, dated as of March 29, 2016, between the Company, certain subsidiaries of the Company and Chongqing Funds (English Translation).
10.2	Alpha and Omega Semiconductor Limited Calendar Year 2016 Executive Incentive Plan.
31.1	Certification of Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation
101.DEF	XBRL Taxonomy Extension Definition
101.LAB	XBRL Taxonomy Extension Labels
101.PRE	XBRL Taxonomy Extension Presentation

+ Confidential treatment has been requested for certain information contained in this document. Such information has been omitted and filed separately with the SEC.

SIGNATURES

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

May 10, 2016

ALPHA AND OMEGA SEMICONDUCTOR LIMITED

By: /s/ YIFAN LIANG
Yifan Liang
Chief Financial Officer and Corporate Secretary
(Principal Financial Officer)

NOTE: Portions of this Exhibit are the subject of a Confidential Treatment Request by the Registrant to the Securities and Exchange Commission (the “Commission”). Such portions have been redacted and are marked with a “[*]” in the place of the redacted language. The redacted information has been filed separately with the Commission.**

Joint Venture Contract on Incorporation of Chongqing Alpha and Omega Semiconductor Limited (the “JV Company”)

Article 1 General Provisions

1. This joint venture contract (the “**Contract**”) is entered into by the following parties on March 29, 2016:

- (1) **Alpha and Omega Semiconductor Limited**(“**AOS** ”),
Alpha and Omega Semiconductor Limited(“**AOS** ”), a company duly incorporated according to the laws of Bermuda.
- (2) **Alpha & Omega Semiconductor (Shanghai) Ltd.** (“**AOS SH** ”), a company duly incorporated in Shanghai according to the laws of the People’s Republic of China (“**China** ”).
- (3) **Agape Package Manufacturing (Shanghai) Ltd.** (“**APM SH** ”), a company duly incorporated in Shanghai according to the laws of China.
- (4) **Chongqing Strategic Emerging Industry Equity Investment Fund Partnership (LP)** (“**Strategic Industry Fund** ”), a partnership duly established in Chongqing according to the laws of China.
- (5) **Chongqing Liangjiang New Area Strategic Emerging Industry Equity Investment Fund Partnership (LP)** (“**Liangjiang Strategic Fund** ”), a partnership duly established in Chongqing according to the laws of China.

The above five parties shall be collectively referred to hereinafter as the “**Parties**”, and individually as a “**Party**”.

The Parties agree to establish a Sino-foreign equity joint venture enterprise in Chongqing, China according to the terms hereof. According to the *Law of the People’s Republic of China on Sino-Foreign Equity Joint Ventures* and the *Regulations for Implementation of Law of the People’s Republic of China on Sino-Foreign Equity Joint Ventures* (the “**JV Company Laws**”), and other applicable laws and regulations of China, upon friendly consultation, the Parties have reached the following agreements on the principles of equality and mutual benefit:

Article 2 Definitions

The following terms used herein shall have the meanings below:

- 2.1 “ **Claims** ” mean any claims, requests, litigations, arbitrations, inquiries, proceedings or investigations filed by or to any governmental agencies or departments of China at the national, provincial, municipal or local levels, or any regulatory agencies or departments, or any administrative agencies or departments, or any courts, tribunals, judicial authorities or arbitral organizations;
- 2.2 “ **Affiliates** ” means, in respect of any person, any other person controlled by, controlling, or under common control with, such person, whether directly or indirectly through one or several intermediaries;
- 2.3 “ **Approval Authority** ” means the Ministry of Commerce of China, or its local counterparts authorized to approve this Contract, the Articles of Association or any amendments or supplementations thereto, or any governmental department or relevant agency having the power to approve any matters required for approval before the JV Company obtains its business license;
- 2.4 “ **Approval Certificate** ” means the Approval Certificate of the People’s Republic of China for Incorporation of Joint Venture Company issued by the Approval Authority;
- 2.5 “ **Articles of Association** ” mean the articles of association of the JV Company having the same date hereof, and any further amendments or supplementations made thereto from time to time;
- 2.6 “ **Board of Directors** ” means the board of directors of the JV Company;
- 2.7 “ **Business License** ” means the business license of the JV Company issued by the Registration Authority for incorporation of the JV Company;
- 2.8 “ **Contract** ” or “ **JV Contract** ” means the joint venture contract entered into by the Parties (including its exhibits and schedules, which constitute an integral part hereof), and any amendments or supplementations made by the Parties thereto from time to time;
- 2.9 “ **Percentage of Contributions** ” shall have the meaning set forth in Article 6.2;
- 2.10 “ **Control** ” (including “ **Controlled** ” and “ **Under Common Control** ”) means, in respect of any person, having the power to direct or procure others to direct the matters or management of such person directly or indirectly through one or several intermediaries, or

by acting as the trustee, personal representative or executor, whether by owning securities attached with voting rights, or by contract or otherwise;

2.11 “ **Day** ” means a calendar day;

2.12 “ **Director** ” means any director of the JV Company;

2.13 “ **Incorporation Date** ” means the date when the Business License of the JV Company is issued;

2.14 “ **US GAAP** ” means the US financial reporting standards formulated by US Accounting Standards Board, including the US Accounting Standards and relevant interpretations;

2.15 “ **Background Technology** ” means any unpatented tangible or intangible proprietary and/or confidential technology, business secret, information, data and materials (i) developed, conceived, owned or licensed by or for any Party before this Contract becomes effective, or (ii) conceived or implemented by one Party during its own time outside of the performance of its obligations hereunder, without using any equipment, supplies, resources, business secret or confidential information of other Party or JV Company, or (iii) licensed by any third party to one Party, including but not limited to specifications, engineering or technical data, blueprints, illustrations, diagrams, computer programs, designs, technologies, methods, processes, manufacturing data and marketing information, as well as any matters relating to the foregoing, but excluding any technology transferred to JV Company as contribution by AOS which is set forth in the AOS Patent and Technology Transfer Agreement;

2.16 “ **Person** ” means any individual, partnership, firm, corporation, association, trust, unincorporated organization or governmental entity;

2.17 “ **China** ” means the Mainland of the People’s Republic of China, excluding for purpose hereof Hong Kong Special Administrative Region, Macau Special Administrative Region, and Taiwan;

2.18 “ **China Accounting System** ” means all laws, regulations, rules, provisions and systems of China relating to finance and accounting;

2.19 “ **China Laws** ” means any China laws, administrative regulations, local regulations at provincial or other levels, and the departmental regulations or other normative provisions that have been promulgated and become effective;

2.20 “ **Registration Authority** ” means State Administration for Industry and Commerce of China, or its local counterparts authorized to be responsible for registration of joint venture companies;

- 2.21 “ **Subsidiary** ” means any entity (“Entity”) on the date of making any decision: (i) over fifty percent (50%) shares or other equities of which are held by the JV Company that are attached with voting rights on appointment of directors, or over fifty percent (50%) interest in the profit or capital of which is directly or indirectly owned or controlled by the JV Company; or (ii) all or part of the assets of which are incorporated into the net profit of the JV Company, and are included in the accounts of the JV Company, according to China Accounting System and international financial reporting standards for purpose of financial report; or (iii) the business and policy of which are directly or indirectly directed by the JV Company;
- 2.22 “ **Taxes** ” mean any and all taxes, fees, assessments, imposts, duties, levies and other charges (plus any and all interest, penalty, surcharge and additional amount imposed with respect to the foregoing), including but not limited to any taxes or fees relating to incomes, franchise, mining right, accidental income or other profit, total revenue, property, sale, use, equity, salary, employment, social insurance, labor compensation, and unemployment compensation, or any taxes or other charges having similar nature as consumption tax, withholding tax, ad valorem duties, stamp duties, transfer tax, value-added tax, or capital gain tax, and charges for permission, registration and document preparation, as well as levies, duties or similar charges imposed by customs;
- 2.23 “ **Term** ” means the term of validity of the JV Company and this Contract as provided in Article 12.1 hereof.
- 2.24 “ **Three Funds** ” mean the reserve fund, employee bonus and benefit fund, and the enterprise development fund set aside by the JV Company from its after-tax profits according to the applicable China Laws; and
- 2.25 “ **Fund Party** ” means Strategic Industry Fund and Liangjiang Strategic Fund.
- 2.26 “ **AOS Party** ” means AOS, AOS SH, and APM SH.
- 2.27 “ **Dollar** ” or “ **US\$** ” means the legal currency of the United States of America.
- 2.28 “ **Over** ” or “ **Below** ” is inclusive.

Article 3 Parties to the JV Company

The Parties to the JV Company are as follows:

- (1) **AOS** Alpha and Omega Semiconductor Limited— Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda .
Alpha and Omega Semiconductor Limited,a company incorporated and existing according to the Bermuda laws, with its registered address at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

Authorized representative: Name: Mike F. Chang
Title: Chairman of Board Of Directors
Nationality: USA

(2) **AOS SH** — 2700002201512170019。

A company incorporated and existing as a legal person according to China Laws, with its registered address at Building 8/9, No. 91, Lane 109, Rongkang Road, Area B Songjiang Export Processing Zone, No. 888 Songzheng Highway, Songjiang District, Shanghai, China, which is registered with Shanghai Administration for Industry and Commerce, with its business license No. 2700002201512170019.

Legal representative: Name: Lee Shawn Luo
Title: Legal Representative
Nationality: USA

(3) **APM SH** A company incorporated and existing as a legal person according to China Laws, with its registered address at B1 Standard Plant, Dongkai Property Park, Area B Songjiang Export Processing Area, Songjiang District, Shanghai, which is registered with Shanghai Administration for Industry and Commerce, with its business license No. 00000002201512250025.

Legal representative: Name: Xue Bing
Title: Legal Representative
Nationality: USA

(4) **Strategic Industry Fund** A partnership established and existing as an enterprise according to China Laws, with its registered address at No. 19, Yinglong Avenue, Longxing Town, Yubei District, Chongqing, which is registered with Chongqing Administration for Industry and Commerce, with its business license No. 500905212525709.

Authorized representative: Name: Li Jianming
Title: Chairman of Board Of Directors
Nationality: China

(5) **Liangjiang Strategic Fund** A partnership established and existing as an enterprise according to China Laws, with its registered address at No. 19, Yinglong Avenue, Longxing Town, Yubei District, Chongqing, which is registered with Chongqing Administration for Industry and Commerce, with its business license No. 91500000MA5U3AL86Q.

Authorized representative: Name: Zhang Jun

Title: General Manager
Nationality: China

Article 4 Incorporation of JV Company

4.1 Incorporation of JV Company

(a) The Parties agree to establish the JV Company pursuant to the terms and conditions of this Contract, and according to the JV Company Laws and other applicable China Laws.

(b) “ Chongqing Alpha and Omega Semiconductor Limited ”。

The English name of the JV Company is “ Chongqing Alpha and Omega Semiconductor Limited”.

(c) The Chinese name of the JV Company is _____.

(d) 407。

The legal address of the JV Company is Accessory Building 407, No. 5, Yunhan Avenue, Shuitu High-Tech Industry Park, Beibei District, Chongqing, China.

4.2 Nature of the JV Company

The JV Company is a limited liability company invested and operated by Chinese and foreign parties, which has enterprise legal personality according to the JV Company Laws. The incorporation and activities of the JV Company shall comply with relevant provisions of China Laws, and its legitimate rights and interest will be protected by China Laws.

4.3 Limited Liability

6.2As a limited liability company incorporated according to China Laws, the JV Company shall be responsible for its entire liabilities with all of its assets. The liabilities and risks assumed by each Party to the JV Company shall be limited to the contribution in the registered capital of the JV Company subscribed by it under Article 6.2 of this Contract. Additionally, no Party shall be responsible for any liability of the JV Company, whether individually or jointly and severally. Each Party will share the profits of the JV Company in proportion to their contributions to the JV Company.

4.4 Approval and Registration of the JV Company

After the authorized representatives of the Parties execute this Contract, the Parties shall immediately apply to the Approval Authority for approving this Contract and the Articles of Association, and shall go through the industrial and commercial registration with the Registration Authority for establishing the JV Company after having obtained the Approval Certificate.

4.5 Incorporation Date of the JV Company

The date of incorporating the JV Company shall be that of issuing the Business License. After receiving the Business License, the JV Company shall complete all other relevant registration formalities and obtain all relevant certificates, licenses and permits required for the operation of the JV Company, including but not limited to the foreign exchange registration certificate and the tax registration certificate.

4.6 Branches

The JV Company may establish subsidiaries, branch companies or representative offices in China according to its needs, subject to the approvals by the Board of Directors and the Approval Authority.

Article 5 Business Scope and Scale

5.1 Business Scope

The business scope of the JV Company is summarized as follows: design, production and sale of semi-conductor chips; design, production and sale of semi-conductor chip package; undertake the processing and trading services of semi-conductor chip or semi-conductor chip package. (Any items of the business scope requiring approval according to laws and administrative regulations shall be so approved before being conducted.)

Article 6 Total Investment and Registered Capital

6.1 Total Investment

The initial total investment of the JV Company is USD 290 million, and may be increased by the Parties according to the capital needs of the JV Company.

6.2 Registered Capital

The initial registered capital of the JV Company is USD 288 million, and shall be paid by the Parties according to the contributions scheme set forth in Schedule A. The contributions

subscribed by each Party and their shareholdings (“ **Percentage of Contributions** ”) in the registered capital are as follows:

No.	Name of Investor	Subscribed Amount of Capital (million USD)	Type of Contributions	Percentage of Contributions
1	Strategic Industry Fund	80	Cash	27.78
2	Liangjiang Strategic Fund	40	Cash	13.89
3	AOS SH	31	Equipment	10.76
4	APM SH	43	Equipment	14.93
5	AOS	USD84 million in the forms of patent and technology and USD10 million in cash	Patent, technology and cash	32.64
Total		288	—	100

6.3 Payment and Verification of Contributions

A) The Parties shall timely and fully pay their subscribed contributions according to this Contract or the agreed schedule (see Schedule A). Contributions in cash shall be deemed to have been paid when the cash is transferred to the account of the JV Company, contributions in the form of equipment shall be deemed to have been made when the equipment transfer contract is signed and the equipment is actually delivered, and contributions in the form of intellectual property rights shall be deemed to have been made when the change of registration with relevant authority has been completed. Relevant contributors shall use their reasonable efforts to cooperate with the JV Company to complete the registration of equipment (if necessary), and the change of registration of the patent transferred.

The contribution of equipment shall be deemed to have been completed when such equipment is delivered in Shanghai. After delivery, the contributor and the JV Company shall enter into a lease providing for the rental, relocation, and the installation and debugging of the equipment after completion of the contribution etc. The Parties acknowledge that the lease shall provide that the term of lease shall be from [***] to the completion of installation and debugging of the equipment after relocated to Chongqing, that the equipment shall begin relocation when the plant of the JV Company has the conditions for installing and debugging the equipment, that the relocation of equipment shall be completed generally within 12 months after the start of relocation, and that the JV Company shall be responsible for RMB8 million for the relocation, installation and debugging, with the amount exceeding RMB8 million being paid by AOS SH and APM SH.

*** CONFIDENTIAL PORTIONS OMITTED AND FILED SEPARATELY WITH THE COMMISSION

The contributor of the equipment shall assume the risks of loss and destruction of or other damage to the equipment from its delivery in Shanghai to its relocation to Chongqing and its installation and debugging, except for the wear and tear occurred during normal use. The contributor of the equipment shall purchase property insurance at its own cost according to its insurance practice.

A certified Chinese public account shall verify the contributions made by the Parties, and issue a verification report, the cost of which shall be assumed by the JV Company.

6.4 Transfer of Equity

Except that the Fund Party consents and the Approval Authority approves, no contributor of equipment and intangible asset shall transfer part or all of its equity in the JV Company corresponding to its subscribed contribution to any third party.

Except that the contributor of equipment and intangible assets consents and the Approval Authority approves, no Fund Party shall transfer part or all of its equity in the JV Company corresponding to its subscribed contribution to any third party within 3 years after payment of its first installment of contribution.

If a Fund Party transfers part or all of its equity in the JV Company corresponding to its subscribed contribution to its Affiliate which unconditionally accepts all rights and obligations of such Fund Party under this Contract, the contributor of equipment and intangible assets shall consent to such transfer.

No Fund Party shall transfer its equity in the JV Company to any competitors of AOS.

6.5 Pledge of Equity

Without the unanimous consent of the Board of Directors of the JV Company, neither Party may pledge all or part of its equity in the JV Company corresponding to its subscribed contribution, nor create other forms of security over such equity.

6.6 Intention of Listing

The Parties agree that the JV Company will be publicly listed at an appropriate time when the conditions permit.

Article 7 Responsibilities of the Parties

In addition to performance of their respective obligations under other part hereof, the Parties shall timely perform the following duties, without charging against the JV Company for any fees.

7.1 Responsibilities of the Fund Party:

- (a) Assist the JV Company to file applications to relevant departments, and obtain and maintain the approvals, consents, permits and licenses required for the production and operation of the JV Company and its subsidiaries and branch companies, including but not limited to all necessary approvals, consents, permits and licenses relating to land use right, safety, environment protection and other matters governed by China governmental agencies;
- (b) Assist the JV Company to maintain and develop relationship with the local governmental departments and domestic enterprises of China;
- (c) Use its reasonable efforts to assist the JV Company to obtain RMB and foreign currency loans from domestic financial institutions;
- (d) Use its best efforts to assist in good faith the JV Company to enhance economic efficiency and profitability;
- (e) Procure its designated directors and officers of the company to comply with the qualifications for the designated positions, and procure such directors and officers to take any actions within their authority to ensure the operation of the JV Company to meet relevant quality and safety standards;
- (f) Actively perform any obligations and responsibilities to be performed by the Fund Party according to this Contract;
- (g) Deal with other work delegated by the Board of Directors.

7.2 AOS: Responsibilities of AOS Party:

- (a) Procure the timely provision of the patent and technology set forth in Exhibit A;
- (b) Provide the technical support, technical training and technicians for transfer of technologies to the JV Company, and assist the JV Company to acquire the capability to produce the wafer and package of the products set forth in Exhibit A;
- (c) AOS Actively perform the obligations and responsibilities to be performed by AOS under this Contract;
- (d) Assist the JV Company to improve corporate governance;
- (e) Assist the JV Company to look for persons and technical experts to work for the JV Company;

- (f) Use its reasonable efforts to assist the JV Company to enhance economic efficiency and profitability;
- (g) Use its reasonable efforts to assist the JV Company to obtain foreign currency loans from foreign financial institutions;
- (h) Assist the JV Company with the latter's quality control;
- (i) Procure its designated directors and the officers designated to the management organization to take any actions within their authority to ensure the operation of the JV Company meets relevant quality and safety standards; and
- (j) Deal with other work delegated by the Board of Directors.

7.3 Intellectual property

- (a) Intellectual property of AOS. AOS is the sole and exclusive owner of all rights, titles and interests (all intellectual property rights to be owned according to China Laws) (collectively as “**AOS Intellectual Property**”) in (i) AOS's Background Technology; and (ii) any improvement or revisions to any AOS's Back Ground Technology made by AOS or any Party to the JV Company or by both. When the JV Company produces, continues to produce, produces in an OEM manner, uses, sells, offers to sell, imports, exports or otherwise uses the product or service required for performing any orders of AOS or AOS's affiliates, AOS shall grant the JV Company free of charge the right to use AOS Intellectual Property to perform such orders. However, if the JV Company intends to use AOS Intellectual Property beyond the above authorization scope, including but not limited to providing any service or product to any third party, the JV Company shall first negotiate with AOS to obtain the license of using such intellectual property.
- (b) Intellectual property of JV Company. JV Company is the sole and exclusive owner of all rights, titles and interests (all intellectual property rights to be owned according to China Laws) (collectively as “**JV Company Intellectual Property**”) in (i) the patent and technology transferred by AOS to JV Company as contributions; and (ii) any improvement or revisions to the foregoing patent and technology made by JV Company. JV Company hereby grants AOS, AOS's affiliates and AOS's OEM free of charge the non-sub-licensable and non-assignable use right and license of the JV Company Intellectual Property to produce, continue to produce, produce in an OEM manner, use, sell, offer to sell, import, export or otherwise use any product or service.
- (c) Non-Background Intellectual Property. Subject to Paragraphs 7.3(a) and (b) above,

- (i) Any new technology developed independently by JV Company or any improvement or revision to that technology, and all intellectual properties thereunder shall be owned by JV Company (“ **New JV Company Intellectual Property** ”), and subject to the terms and conditions hereof, JV Company hereby grants AOS, AOS’s affiliates and AOS’s OEM free of charge the non-sub-licensable and non-assignable use right and license of the New JV Company Intellectual Property to produce, continue to produce, produce in an OEM manner, use, sell, offer to sell, import, export or otherwise use any product or service.
- (ii) Any new technology developed by AOS in connection with the products operated by JV Company, any improvements or revisions to that technology, and all intellectual properties thereunder shall be owned by AOS (“ **New AOS Intellectual Property** ”), and subject to the terms and conditions hereof, where JV Company is required to use the New AOS Intellectual Property to perform any orders of AOS or AOS’s affiliates, AOS shall grant JV Company free of charge the right to use New AOS Intellectual Property required for performing such orders. However, if JV Company intends to use New AOS Intellectual Property beyond the above authorization scope, including but not limited to providing any service or product to any third party, the JV Company shall first negotiate with AOS to obtain the license of using such intellectual property.
- (iii) Any new technology jointly developed by AOS and JV Company, and any improvements and revisions to such technology, and all intellectual properties thereunder, shall be owned jointly by AOS and JV Company, AOS or JV Company has full right to use such technology, without any obligation to explain to, or obtain consent from, the other party, provided that if either party licenses such new technology to any third party (excluding the affiliates of both parties), it shall obtain the consent of the other party. AOS or JV Company may make an application for intellectual property rights of such new technology according to the laws of any jurisdiction, provided that the applicant must list the other party as the co-applicant.
- (d) Subject to the terms and conditions hereof, where JV Company or its subsidiary or branch company produces, continues to produce, uses, sells, offers to sell, imports, exports or otherwise uses any product or service required to perform any orders of AOS or AOS’s affiliates, AOS shall grant JV Company or its subsidiary or branch company, or its OEM free of charge the right to use any trademarks owned by AOS in relation to such product or service. However, if JV Company intends to use the trademark beyond the above authorization scope, including but not limited to providing any service or product to any third party, the JV Company shall first negotiate with AOS to obtain the license of using such trademark.

- (e) Subject to the provisions of Article 20.2 (*Non-Competition*) hereof, if JV Company intends to use AOS Intellectual Property to produce or sell semi-conductor products, it shall negotiate with AOS friendly and enter into a technology license contract according to China Laws, to provide for the specific matters of license, provided that, without AOS's prior written consent, JV Company may not sell to the competitors of AOS or AOS's affiliates.

Article 8 Board of Directors, Supervisors, and General Manager

8.1 Organization of Board of Directors

The Board of Directors shall be organized on the Incorporation Date.

8.2 Composition of Board of Directors

The Parties agree that the Board of Directors is composed of seven (7) directors, [four (4)] of whom will be appointed by AOS, [two (2)] of whom will be appointed by Strategic Industry Fund, and [one (1)] of whom will be appointed by Liangjiang Strategic Fund. During the term hereof, if the Percentage of Contributions of each Party changes, the Parties may amend this Contract accordingly, including but not limited to change of the composition and number of directors appointed by each Party as agreed then by the Parties.

8.3 Term of Office

Each director shall take office for four (4) years, and may take office successively if appointed again by the original appointing Party. The appointing Party may dismiss at any time any director appointed by it, and appoint a successor whose term of office will be the remaining part of the term of the director being succeeded. The Party changing any director appointed by it shall give written notice to all other shareholders of JV Company and the JV Company itself. If required by the currently effective China Laws, JV Company shall change registration or record with the Approval Authority and the Registration Authority in respect of the foregoing change. Each Party shall take appropriate measures to maintain the number of directors it appoints to the Board of Directors.

8.4 Chairman and Vice Chairman of the Board of Directors

- (a) The Board of Directors has one chairman and one vice chairman. The chairman will be designated by AOS from the directors it appoints, and the vice chairman will be designated by the Fund Party from the directors it appoints. Both the chairman and vice chairman will be appointed by the Board of Directors.

- (b) The chairman shall act as the legal representative of JV Company, whose powers and duties include the follows:
 - (i) Convene and chair the meetings of Board of Directors; and
 - (ii) Excise other powers delegated by the Board of Directors or provided for by this Contract or the Articles of Association.
- (c) Where the chairman fails to convene and chair the meeting of Board of Directors for any reason, the chairman shall authorize the vice chairman to convene and chair the meeting. If the vice chairman also fails to do so for any reason, the chairman shall authorize another director to convene and chair the meeting.

8.5 First Meeting of Board of Directors

The first meeting of Board of Directors shall be held as soon as possible after the Incorporation Date. The agenda of the first meeting includes but not limited to the following:

- (a) Examine and approve the annual business plan, financial budget and investment plan (if any) of the JV Company;
- (b) Select and appoint the external auditor of the JV Company;
- (c) Examine and approve the organizational structure of the JV Company set forth in Schedule B hereto, including but not limited to the setup of various positions of the management organization of JV Company, and the setup and function scope of the internal departments of JV Company;
- (d) Appoint the members of the management organization of JV Company;
- (e) Enter into relevant agreements referred to in Article 6.3;
- (f) Determine the salary packages of the members of the management organization.

8.6 Other Meetings of Board of Directors

- (a) The Board of Directors shall hold at least one (1) meeting in each calendar year to discuss the operations of JV Company, and approve significant matters of JV Company. Upon the written request of at least one third (1/3) of directors, the chairman of Board of Directors shall hold an interim meeting of Board of Directors within thirty (30) days after receiving such request, to discuss relevant matters;
- (b) All meetings of Board of Directors shall be convened and chaired by the chairman, vice chairman or one director (as the case may be). A written notice (a notice by

Email will be deemed as a written notice) shall be sent to each director at least [ten (10)] days before holding any meeting, indicating the time, place and agenda of such meeting. The chairman shall formulate the meeting agenda. Any documents relating to the meeting (if any) shall be sent to each directors at least [five (5)] days before holding the meeting. Any meeting held without timely and properly notifying each director according to this Paragraph (b) shall be void, except that the director failing to receive proper and timely notice waives such notice requirement to the chairman or vice chairman before, at or after the meeting. Any director failing to receive proper notice of meeting but attending the meeting shall be deemed to have waived the notice requirement. The meeting shall be held at the registered office of JV Company or other locations inside or outside of China determined by the chairman or vice chairman;

- (c) Other details relating to the meeting of Board of Directors shall be provided for in the Articles of Association or the rules of procedure of Board of Directors.

8.7 Quorum and Adoption of Resolutions

- (a) The duly held meeting of Board of Directors shall include 2/3 of directors present at the meeting (at least one director appointed by AOS and one appointed by the Fund Party), whether present in person (including through telephone or conference call) or by proxy. If no quorum is reached, any resolutions adopted at the meeting shall be void, and without any effect. If no quorum is reached for two consecutive meetings duly held due to any unreasonable absence of any director appointed by any Party hereto or of any proxy entrusted by such director, notwithstanding such absence of any director appointed by the above Party, the meeting shall be deemed to be duly held, and the resolutions adopted at the meeting shall be deemed as valid.
- (b) Each director present at the meeting of Board of Directors shall have one vote. If any director fails to attend any meeting due to any reason, he may entrust one alternate in writing to attend such meeting, and such alternate may be another director. The alternate so entrusted will have the same rights as the appointing director, and one alternate may represent one or more directors. One alternate will have one vote for each director it represents, and if the alternate is a director himself, he will have another vote for such capacity.
- (c) The resolution of Board of Directors may be adopted in writing instead of holding any meeting, and signed by all directors, provided that such written resolution shall be sent to each of the directors. Each director may sign different counterparts of the same written resolution, and all such counterparts constitute one and the same valid written resolution. Thus, the scanned or faxed copies signed by the directors shall have binding force. The written resolution has the same legal force as any resolution passed at the meeting of Board of Directors.

8.8 Powers of Board of Directors

The Board of Directors is the supreme authority of the JV Company. The Board of Directors decides all important matters of JV Company through resolutions according to Article 8 hereof and the Articles of Association. Such important matters include but not limited to the following matters relating to JV Company or its subsidiaries, and any other matters no less than 1/3 of directors request the Board of Directors to decide:

- (a) Prepare and amend the Articles of Association of the JV Company;
- (b) Suspend or liquidate the JV Company;
- (c) Increase or reduce the registered capital of the JV Company;
- (d) Merger or division of the JV Company, and formation of subsidiaries or branch companies;
- (e) Decision of changing the registered office of the JV Company;
- (f) Transfer, gift or otherwise dispose of the intellectual property relating to the JV Company;
- (g) Adopt and amend the rules of procedures of Board of Directors, and the rights and duties of the vice asset general manager;
- (h) Examine and approve any business transactions with an aggregate amount of no less than RMB10 million or any single business transaction with an amount of no less than RMB1 million between the JV Company and (i) its directors, supervisors or senior officers, or (ii) any entities (excluding the Parties or their respective affiliates) in which the directors, supervisors or senior officers of the JV Company hold any interest directly or indirectly. For the avoidance of any doubt, this Paragraph (h) will not apply to any transactions between the JV Company and AOS or AOS's affiliates;
- (i) Examine and approve the principles of sale, purchase and other related transactions between the JV Company and AOS or AOS's affiliated in respect of the daily production and operation, and, in addition to the above related transactions, examine and approve other related transactions with an aggregate amount of no less than RMB30 million in one accounting year, or any single transaction with an amount of no less than RMB5 million between the JV Company and its shareholders (including the Parties and their respective affiliates);
- (j) Examine and approve the company's issuance of bonds or other securities or the listing plan;
- (k) Examine and approve the company's stock incentive plan;

- (l) Examine and approve the company's provision of security for any third party by its assets or credit;
- (m) Examine and approve the company's restructuring of claims and debts, and the company's provision of financial aid, donation (excluding donation for public interest), large loans and other transactions;
- (n) Examine and approve the company's annual financial budget plan and actual financial statement;
- (o) Examine and approve the company's important operation plan and investment program exceeding the company's financial budget;
- (p) Examine and approve the company's profit distribution plan and loss recovery plan;
- (q) Determine the salaries and benefits for the senior officers of the company at or above the levels of general manager and vice general manager; appoint the general manager and other vice general managers than the vice asset general manager as instructed by AOS; appoint the vice asset general manager as instructed by the Strategic Industry Fund;
- (r) Examine and approve the engagement of external auditor;
- (s) Determine the setup of the company's internal management organization;
- (t) Other important matters to be decided by the Board of Directors.

The matters set forth in Paragraphs (a) to (d) of Article 8.8 shall be [***]. The matters set forth in Paragraphs (e) to (m) of Article 8.8 shall be [***]. The matters set forth in Paragraphs (n) to (t) of Article 8.8 shall be [***]. Any of the above matters may also [***].

If any reserved matter is (i) proposed by any Party (or its duly appointed director) to be delivered for resolution at the meetings which are duly held at least for three consecutive times and reach statutory quorum, and which are not held at intervals less than two months, and (ii) not approved, the proposing Party may declare a “**Deadlock**”.

If any deadlock occurs, the senior representatives of the Fund Party and AOS shall meet at the principal administrative office of JV Company or other locations agreed by the Parties, to friendly negotiate the resolution of such deadlock.

*** CONFIDENTIAL PORTIONS OMITTED AND FILED SEPARATELY WITH THE COMMISSION

If the deadlock is not resolved within two months after it is declared, either Party may submit the deadlock to arbitration according to Article 19 hereof.

8.9 Voting on Matters of Subsidiaries or Invested Companies of JV Company

In respect of any matters of the subsidiaries or invested companies of JV Company provided for in Article 8.8, the directors appointed or nominated (as the case may be) by JV Company to such subsidiaries or invested companies, and the shareholder's representatives entrusted by JV Company to attend the shareholders' meeting of such subsidiaries or invested companies shall vote according to the resolutions of Board of Directors on such matters.

8.10 Directors

- (a) The compensations for the directors and their alternates shall be paid by the appointing Party. Any costs incurred by the directors and their alternates for attending the meetings of Board of Directors shall be reimbursed by JV Company in RMB or USD, according to the reimbursement vouchers permitted by China Accounting System.
- (b) No director shall assume personal liability for his normal performance of duties within his authority. JV Company shall protect and indemnify the directors from any claims or allegations filed against them (including but not limited to any reasonable attorney's fee, litigation and arbitration costs etc. therefore) to the maximum extent permitted by China Laws, except for the claims or allegations arising from the misconduct, gross negligence, fraud or serious dereliction of duties of the directors.
- (c) All directors, including the chairman and vice chairman, shall perform their duties according to relevant provisions of this Contract and the Articles of Association.
- (d) Each director shall faithfully perform its duties according to the provisions of this Contract and the Articles of Association, protect the interest of JV Company, and avoid any conflict of interest with JV Company, the examples of which are as follows:
 - (i) Any business transactions between JV Company and the director, or between JV Company and any entities (excluding the Parties and their affiliates) in which the director holds interest directly or indirectly, except for the ones approved by Board of Directors;
 - (ii) Directly or indirectly holding any interest in the competitors of JV Company (No Party or its affiliate will be deemed as a “**competitor**” of JV Company);
 - (iii) Receiving unjust benefits from any entities other than JV Company, any Party and its affiliates, to affect the activities of JV Company; or

- (iv) Providing security for shareholders of JV Company or other individuals by using the company's assets.

8.11 Minutes of Meetings of Board of Directors

The Board of Directors shall maintain complete and correct minutes in both Chinese and English, including the copies of all meeting notices. If there is any discrepancy between the Chinese minutes and English minutes, the Chinese one shall prevail. All minutes and resolutions adopted shall be recorded by the meeting secretary designated by the Board of Directors, and shall be sent to all directors for review within sixty (60) days after the meeting. All resolutions of Board of Directors shall be signed by the voting directors, and the minutes shall be maintained in the minutes book of JV Company by the secretary after the chairman and vice chairman sign and approve. The appointment and dismissal of any director shall also be recorded in the minutes book.

8.12 Supervisors

The JV Company has 2 supervisors, instead of any board of supervisors. One supervisor will be appointed by AOS, and the other one by the Fund Party. The appointing Party may notify the JV Company and forward the copies of such notice to the other Party, to appoint or dismiss any supervisor it nominated. The term of first supervisors shall commence from the Incorporation Date of JV Company. The term of each supervisor is four (4) years, and each supervisor may take office consecutively after re-appointment. No supervisor may act as a director or senior officer simultaneously.

8.13 Powers and Duties of Supervisors

The supervisors shall jointly (rather than individually) exercise any powers under China Laws, the Articles of Association or this Contract.

The supervisors may attend the meetings of Board of Directors as non-voting delegates. If the supervisors find that the operation of JV Company has serious abnormal conditions, they may jointly (rather than individually) investigate, or, when necessary, jointly retain an accounting firm to assist their work at the cost of JV Company.

8.14 Meeting of Supervisors

The supervisors shall at least hold one meeting which they attend in person, and the time and location of that meeting shall be the same as those of the annual meeting of Board of Directors. The resolutions of supervisors shall be adopted by unanimous written consents of all supervisors. The supervisors shall procure that all resolutions are fully and accurately recorded in the minutes in both Chinese and English, and such minutes shall be signed by

all supervisors. If there is any discrepancy between the Chinese and English minutes, the Chinese minutes shall prevail. The JV Company shall indemnify the supervisors for any reasonable costs and expenses (e.g., any costs for travel and hotel within a reasonable limit) incurred during performance of their duties and obligations under this Contract and the Articles of Association.

8.15 Senior Officers

The senior officers of JV Company include one general manager and several vice general managers. The general manager and vice general managers other than the vice asset general manager shall be designated by AOS and appointed by the Board of Directors, and the vice asset general manager shall be designated by the Fund Party and appointed by the Board of Directors.

Article 9 Operating and Management Organization

9.1 Management Organization

- (a) The JV Company has the management organization (“**Management Organization**”), the initial title setup of which is set forth in Schedule B. The setup of titles of the management organization may be revised by the Board of Directors from time to time based on the needs of JV Company. The members of the management organization may take office consecutively if they are re-designated and re-appointed. The management organization will be led by the general manager to carry out the daily management and operation of JV Company. The general manager, with assistance from other members of the management organization, shall be responsible to the Board of Directors.
- (b) If any senior officer is removed, the appointing Party shall designate another person within thirty (30) days to continue to perform the duties of the removed officer, until the next meeting of Board of Directors is held to duly appoint the succeeding senior officer according to its rules of procedure. Each Party shall designate their respective successors according to relevant positions set forth in Article 9.1(a) for the Board of Directors to appoint.
- (c) Each department of JV Company has one manager who is responsible for the work of such department, and reports to the designated member of the management organization. All managers of the departments of JV Company shall be appointed by the management organization. If any manager fails to properly perform his duties, the management organization may dismiss him according to relevant China Laws and the labor contract signed between JV Company and him.
- (d) If any member of the management organization acts as a director of JV Company, he may not vote in the capacity of director on his compensation.

- (e) The management organization shall prepare and submit to the JV Company any reports relating to the operation, production, marketing, capital expenditure, personnel and other matters of JV Company.
- (f) The vice financial general manager shall prepare the annual financial report and submit it to the Board of Directors for review.
- (g) The vice asset general manager shall maintain the financial seal of JV Company, and may not refuse any request for using such seal that does not violate the rules of powers and duties of vice asset general manager. Otherwise, the JV Company is entitled to request the Strategic Fund Party to designate another person to act as vice asset general manager within thirty (30) days.

9.2 Removal and Dismissal of Members of Management Organization

Without prejudice to the powers of Board of Directors under this Contract, either Party is entitled to remove any members it designated to the management organization, and may designate another person to succeed the person removed.

9.3 Exemption of Personal Liability

No member of the management organization shall assume personal liability for his normal performance of duties within his authority. JV Company shall protect and indemnify the members from any claims or allegations filed against them (including but not limited to any reasonable attorney's fee, litigation and arbitration costs etc. therefor) to the maximum extent permitted by China Laws, except for the claims or allegations arising from the misconduct, gross negligence, fraud or serious dereliction of duties of the members.

Article 10 Labor and Personnel Management

10.1 Employee Policy

Any policies, plans, and contracts relating to recruitment, employment, incentive, dismissal, resignation, salary, labor safety, social insurance or other benefit and labor discipline, and other matters relating to employees of JV Company shall be managed by the management organization according to relevant China Laws. The JV Company has autonomous right over its employees and management of labor. The JV Company shall enter into labor contracts with every employees.

10.2 Employment

The JV Company shall recruit the better employees based on its needs of operation and development. If the JV Company recruits new employees through examination or assessment, the candidates who get good grades in such examination or assessment shall be employed.

10.3 Compensation

Any policies regarding the salary, benefit and other treatment of employees of JV Company shall be formulated by the management organization according to relevant China Laws and based on the actual situations of JV Company. The JV Company has the right to determine its employee's compensation and relevant benefit and treatment based on its operational and economic conditions.

10.4 Termination of Labor Relationship

- (a) The employee of JV Company may resign according to relevant China Laws and his labor contract, provided that, if the employee participates any training program sponsored by JV Company, and enters into relevant agreement regarding service period which has not expired, the employee shall compensate the JV Company before he is permitted to resign according to relevant China Laws and the provisions of such agreement regarding service period. Except it is otherwise provided for by China Laws, the resigning employee shall notify in writing the JV Company at least thirty (30) days in advance.
- (b) The JV Company shall ensure that (i) the labor contract it enters into with each employee contains a confidentiality provision, procuring the employee to keep confidential any secret information he become aware of during his employment with JV Company, and an invention transfer agreement, procuring the employee to transfer any and all intellectual properties relating to his employment with JV Company to the JV Company; and (ii) the labor contract between it and any officer or any employee who has the opportunity to access any know-how or other confidential information of JV Company contains a non-competition clause, procuring that after the labor contract is terminated, such officer or employee will not work directly or indirectly for any competitors of JV Company, provided that JV Company shall pay compensations to such officer or employee according to relevant labor laws and regulations.

Article 11 Tax, Finance, Audit and Profit Distribution

11.1 Tax

The JV Company shall pay various taxes applicable to it according to relevant China Laws.

11.2 Individual Income Tax

All employees of JV Company shall pay their individual income taxes according to the *Law of the People's Republic of China on Individual Income Tax* and other applicable China Laws, and the JV Company shall withhold and pay such tax.

11.3 Accounting System

- (a) The JV Company shall establish its financial and accounting system according to China Accounting System, and, if requested, submit the system to the local finance department and tax authority for record.
- (b) The JV Company shall also prepare its financial statements according to the US GAAP, and the accounting method adopted by JV Company shall comply with the US GAAP. In addition, JV Company shall adopt the ledger and account details specified by AOS in writing.
- (c) The JV Company shall keep their books on accrual basis and using debit-credit bookkeeping method, and shall prepare complete and accurate quarterly and annual financial statements according to China Accounting System and US GAAP.
- (d) The JV Company shall adopt calendar accounting year, starting from January 1 and ending on December 31. The first accounting year of JV Company commences on the Incorporation Date, and ends on December 31 of that year.
- (e) The financial statements of JV Company shall be prepared in Chinese and English.

11.4 Audit

- (a) The JV Company shall retain a reputable accounting firm acceptable to AOS and practicing in China as its external auditor. The external auditor shall audit the accounts of JV Company, and issue two sets of consolidated annual financial auditing report of JV Company according respectively to China Accounting System and US GAAP. The JV Company shall provide the external auditor with all documents and accounts required for normal external audit. The external auditor shall agree to keep all information obtained during audit confidential.
- (b) The JV Company shall provide shareholders any financial statements or other required documents and materials as requested by the shareholders.

11.5 Audit and Due Diligence of the Parties on the Accounts of JV Company

Either Party may retain an independent auditor at its own cost or use its internal auditor to audit the accounts of JV Company, or may retain any professionals with industrial or legal qualifications at its own cost to carry out due diligence investigation of JV Company, provided that it shall give JV Company fifteen (15) days written notice before such audit or investigation. The JV Company shall respond all reasonable requests of any Party for providing relevant information, and permit such Party to consult the accounting books, documents and records of JV Company. After the above audit or investigation, the other Party is entitled to know the results of such audit or investigation, and each Party is entitled to raise any objection against any information provided by JV Company or the above audit or investigation results to the general manager, vice financial general manager, and vice asset general manager, who will respond in writing as soon as possible. The Party retaining such independent auditor or professionals and the independent auditor or due diligence professionals shall keep confidential all information obtained during such audit or investigation.

11.6 Foreign Exchange

All matters regarding foreign exchange of JV Company shall be dealt with according to China Laws relating to foreign exchange. Subject to such foreign exchange provisions, the foreign exchange in the account of foreign exchange of JV Company shall be applied for the following purposes:

- (a) Repayment of principal and interest of foreign exchange loans of JV Company;
- (b) Pay the price for purchasing imported equipment and materials;
- (c) Pay the share of profits to AOS or the damages under this Contract; and
- (d) Other foreign exchange expenditure.

11.7 Related Transactions

- (a) The price for any transactions between JV Company and AOS or AOS's affiliate shall comply with relevant provisions of the local transfer pricing regulations. AOS and JV Company shall negotiate and determine any transaction price at arm's length by reference to the market price;
- (b) The Board of Directors of JV Company shall review the prices for related transactions according to the specific situations for each year, and adjust the transaction price when necessary, to ensure the related transactions are carried out at arm's length;
- (c) Price of most favored client:

The JV Company shall provide most favored prices to AOS for any products or services under similar conditions, provided that such favored prices must comply with China Laws and US laws, and be carried out at arm's length. AOS is entitled to audit the prices provided by JV Company to other companies, to verify whether JV Company has complied with this Paragraph (c).

11.8 Profit Distribution

- (a) Subject to the approval of Board of Directors, the annual after-tax profit of JV Company shall be distributed among the Parties in proportion to their Percentages of Contributions, after setting aside the Three Funds. In case of any loss in previous years, the profit shall cover such loss before being distributed. Any undistributed profit for any previous years may be distributed in the current year;
- (b) The JV Company shall remit the profits to be distributed to each Party to the bank account designated by such Party in writing. Among others, the profit distributed to AOS shall be paid in USD.

Article 12 Term and Termination of JV Company

12.1 Term of JV Company

The JV Company shall remain existing for [fifteen (15)] years, starting from the Incorporation Date. The term of JV Company shall be the term of this Contract (“**Term**”).

12.2 Extension

The Parties shall discuss the extension of the Term at least one (1) year before the Term expires. If the Parties agree to extend, they shall submit an application for extension to the Approval Authority no later than six (6) months before the Term expires.

12.3 Causes for Early Termination

Subject to approvals of Board of Directors and the Approval Authority, this Contract may be terminated early before the Term expires if

- (a) the operation and management of JV Company suffer serious difficulty, and existence of JV Company will cause shareholders' interest material loss, which will not be resolved through other means. If both Parties negotiate and reach a consensus, either Party may early terminate this Contract according to any decision or order of the People's Court for dissolution of JV Company;

- (b) the Parties agree that termination of this Contract is in the best interest of each Party;
- (c) the JV Company is bankrupt or insolvent, where either Party may terminate early; and
- (d) Any of the force majeure events set forth in Article 16 continues for one hundred and eighty (180) days or more, where either Party may terminate early.

Article 13 Dissolution and Liquidation

13.1 Early termination

- (a) Without violating the provisions of Article 14.2 (if applicable), when any of the causes for early termination set forth in Article 12.3 occurs, either Party may request for convening the meeting of Board of Directors to discuss the early termination hereof. The chairman of Board of Directors shall convene the meeting according to relevant provisions relating to the meeting of Board of Directors within thirty (30) days after receiving such request. At the meeting, each director shall use their best efforts to reach a solution acceptable to every Party. If failing to reach such solution, each Party shall instruct their designated director to unanimously vote for one of the following proposals:
 - (i) A proposal for dissolving JV Company; or
 - (ii) A proposal for approving either Party to purchase all equity of the other Party in JV Company, and the equity shall be valued according to the valuation method of JV Company in Article 13.6; or
 - (iii) A proposal of requesting the Party for voting against the termination and dissolution of JV Company to recommend a third party acceptable to the other Party to succeed to all rights and obligations of the Party voting for terminating and dissolving JV Company under this Contract and the Articles of Association.

13.2 Dissolution Due to Expiration or Early Termination

When the Term of JV Company expires and is not extended, or when the JV Company is early terminated and dissolved according to Paragraph (a) of Article 13.1, the JV Company shall be liquidated, and the Board of Directors shall organize a liquidation committee according to Article 13.3 to liquidate the JV Company according to relevant China Laws and the Contract.

13.3 Liquidation Committee

- (a) If the JV Company is liquidated according to Article 13.2, the Board of Directors shall organize a liquidation committee (“ **Liquidation Committee** ”) composed of five (5) members, among which, five (5) members will be appointed by AOS, and two (2) by the Fund Party. The chairman of Board of Directors shall be one member and the chairman of the liquidation committee. The costs and expenses of the liquidation committee shall be paid by the JV Company.
- (b) When the JV Company is liquidated completely, the liquidation committee shall prepare a liquidation report and submit such report to the Approval Authority for record. The JV Company shall be deregistered from the Registration Authority.

13.4 Survival of Obligations and Liabilities

If this Contract is early terminated, and the JV Company is required to be liquidated, any obligations or liabilities incurred by either Party to the JV Company or another Party before the Board of Directors makes the decision of liquidating the JV Company shall survive the liquidation and be performed.

13.5 Tender Offer

- (a) Notwithstanding the above Article 13.2, if this Contract is terminated according to Article 13.2, either Party may make an irrevocable tender offer to acquire the equity of the other Party in the JV Company, or to sell its equity in JV Company to the other Party, before the organization of the liquidation committee (“ **Offer** ”).
- (b) The offer shall be sent to the other Party in writing, indicating the buying or selling price in RMB or USD, and the Party receiving such offer may
 - (i) Sell all its equity in JV Company to the offeror, if the offer is a buying offer; or
 - (ii) Purchase all the equity of the offeror in JV Company, if the offer is a selling offer; or
 - (iii) Exercise the power to liquidate and dissolve JV Company under Article 13.2, instead of buying or selling equity.
- (c) The Party receiving the offer shall notify the offeror in writing within thirty (30) days after receiving the offer. If either Party sells its equity in JV Company to other Party according to the terms of the offer, the Parties shall complete the transfer of

equity in JV Company and payment as soon as possible, after having obtained the approval from the Approval Authority.

13.6 Purchase by either Party of The Equity of the Other Party in case of Expiration of Term or Early Termination

- (a) If either Party purchases the equity of other Party in JV Company according to Paragraph (a) of Article 13.1 or Article 13.5, the price for purchasing such equity shall be calculated according to the fair market value of the JV Company on the assumption that the JV Company is actively conducting its operations (except that the JV Company is bankrupt or insolvent). In such case, upon either Party's written request, the valuation of JV Company shall be made by an experienced appraiser reasonably acceptable to each Party.
- (b) When the valuation of the JV Company is determined, the Parties may agree that one Party will purchase the equity of the other Party at a price in proportion to the valued amount. If the Party is unwilling to purchase at the price determined by the appraiser, subject to approval by the Approval Authority, the JV Company may sell the equity to any third party at a most favored price. If the Parties fail to sell the JV Company to any third party at a price acceptable to them, the JV Company may be dissolved and liquidated according to Article 13.
- (c) All costs for the above valuation of JV Company shall be borne by the JV Company.

13.7 Liquidation Preference

The Parties acknowledge that if the JV Company is early terminated and liquidated according to Paragraph (b) or Paragraph (c) of Article 12.3 hereof, after paying the debts of JV Company, the remaining assets of JV Company shall be distributed as follows:

- (a) Repay the Fund Party the principal of its total paid-in contributions plus the interest at [10%] annual rate (simple interest); then
- (b) Distribute the balance of assets of JV Company among other Parties than the Fund Party in proportion to their Percentages of Contributions at the time of liquidation.

Article 14 Breach of Contract and Penalties

14.1 Breach of Contract

If either Party fails to perform its obligations under this Contract or the Articles of Association, or its representations or warranties under this Contract are untrue or inaccurate, it will constitute breach of this Contract.

14.2 Liabilities for Breach of Contract

- (a) When breaching this Contract or the Articles of Association, the breaching Party shall be liable for any actual loss suffered by other Party due to the breach.
- (b) The right to terminate this Contract early under this Contract is in addition to other remedies available to the other Party, any forbearance from exercising such right shall not relieve the breaching Party from performing any obligations accrued before the termination, nor relieve the breaching Party from compensating other Party for any losses caused due to violation of this Contract or the Articles of Association.
- (c) This Article shall be applied to the maximum extent permitted by law, and shall survive the early termination or expiration of this Contract.
- (d) Subject to that either Party (AOS Party or Fund Party) fulfills the contribution arrangement set forth in Schedule A hereto (“Non-Breaching Party”), if the other Party fails to contribute as provided for by Schedule A, it will be deemed to have breached this Contract (“Breaching Party”). If the Breaching Party fails to take any remedies satisfactory to the Non-Breaching Party within 30 days after such breach, it shall be liable for damages. In case of the above breach, the Non-Breaching Party is entitled to suspend performance of any obligations hereunder, until the Breaching Party has taken remedies satisfactory to the Non-Breaching Party, or compensated fully.
- (e) If the AOS Party does not own lawfully the equipment and patent and technology contributed, it will be deemed to have breached this Contract. If AOS fails to take any remedies satisfactory to the Fund Party within 30 days after such breach, AOS Party shall be liable for damages. In case of the above breach, the Fund Party is entitled to suspend performance of any obligations hereunder, until the AOS Party has taken remedies satisfactory to the Fund Party, or compensated fully.
- (f) Any delay of transferring the equipment, patent or technology contributed by AOS Party caused by the asset transfer formalities with relevant governmental authorities shall not be deemed as breach of contract.
- (g) If either Party fails to perform its obligations under this Contract or the Articles of Association, or its representation or warranty hereunder is seriously untrue or inaccurate, it will constitute breach of this Contract, and is a “Breaching Party”. In such case, the other Party shall notify the Breaching Party in writing of such breach. If the breach is remediable, the Breaching Party shall correct its breach within thirty

(30) days after receiving the notice. If the breach is beyond remedy, or the Breaching Party fails to correct its breach within the above thirty (30) days, the other Party is entitled to notify the Breaching Party in writing to terminate this Contract.

14.3 Dispute of Breach

If the Breaching Party disputes the right of the other Party to terminate this Contract according hereto, the dispute shall be resolved according to Article 19 (*Dispute Resolution*).

Article 15 Insurance

The JV Company may purchase any necessary insurances from a foreign insurer, or from any domestic insurers who are incorporated in China and may provide insurances to foreign invested enterprises.

Article 16 Force Majeure

16.1 Force Majeure Events

Force majeure events (“ **Force Majeure** ”) mean any acts or events unpredictable and unavoidable reasonably and beyond the control of the affected party, including but not limited to earthquake, typhoon, flood, other natural disasters, fire, war, riot, terrorism, or other unpredictable or unavoidable acts or events recognized as force majeure by international business practices, provided that, for purpose hereof, force majeure does not include any fund shortage, overall economic or market fluctuation or any labor dispute.

16.2 Occurrence

If either Party encounters any force majeure events and thus is unable to perform any obligations or liabilities hereunder, it shall notify the other Party in writing within thirty (30) days after occurrence of such force majeure events, provide the other Party details and evidence of such events (including any written evidence issued by the governmental departments, judicial departments or any other competent departments), explain the reason that it is unable to perform the Contract, and take measures to mitigate the loss when it is possible.

16.3 Exemption of Liability

If any force majeure event occurs, neither Party shall be liable for any damages, additional costs or losses incurred by the other Party due to its failure or delay of performance of any

obligations hereunder, and such failure or delay shall not be deemed as breach of this Contract. The Party alleging the occurrence of force majeure shall take appropriate measures to mitigate or eliminate the effect of force majeure, and attempt to resume the performance of obligations affected by the force majeure as soon as possible.

Article 17 Representations, Warranties and Covenants of the Parties

17.1 Representations, Warranties and Covenants of Strategic Industry Fund

Strategic industry fund hereby represents, warrants and undertakes to Liangjiang Strategic Fund, AOS, AOS SH and APM SH that:

- (a) it is a reputable company duly incorporated and validly existing according to China Laws;
- (b) it has full legal rights, powers and authorities to sign, deliver and perform this Contract and all other contracts, agreements and documents referred to herein to which it is a party;
- (c) it has taken all appropriate and necessary actions (including resolutions of shareholder's meeting and/or board of directors, as applicable) to authorize the signing, delivery and performance of this Contract and all other contracts, agreements and documents referred to herein, and its representative signing this Contract has obtain full authority to sign this Contract and bind it with a valid power of attorney;
- (d) it has obtained all consents, approvals and authorizations from any company, third party or other entity required by the laws for effectively signing, delivering and performing this Contract and all other contracts, agreements and documents referred to herein to which it is a party, except for any approval of this Contract by the Approval Authority, and this Contract, after approval by the Approval Authority, shall constitute lawful, valid and binding obligations on it, which may be enforced against it according to the terms thereof;
- (e) The execution and performance of this Contract and the completion of the transaction contemplated herein will not violate, or contradict to any terms or conditions of articles of association, contracts, agreements, laws, and regulations to which it is a party or which have binding force upon it, nor result into violation of such terms and conditions, nor constitute breach under such terms and conditions, including the constitutional documents, business license, rules of procedure or articles of association of the company;

- (f) there are no claims that are pending or threatened against it in relation to the subject matter hereof, or that may affect its ability to execute or perform this Contract in whatever manners;
- (g) All documents, statements and information held by it relating to the transaction contemplated hereunder which may have material effect on its ability to perform obligations hereunder, or which may affect the other Party's willingness materially to execute this Contract if disclosed to the other Party, shall have been fully disclosed to the other Party, and all documents previously provided to the other Party do not contain any untrue statement of material facts, nor omit any necessary material fact the omission of which will cause the statement misleading;
- (h) It has no outstanding undertakings or obligations (contractual or otherwise) that may affect its ability or right to execute and perform this Contract.

17.2 Representations, Warranties and Covenants of Liangjiang Strategic Fund

Liangjiang Strategic Fund hereby represents, warrants and undertakes to Strategic Industry Fund, AOS, AOS SH, and APM SH that:

- (a) it is a reputable company duly incorporated and validly existing according to China Laws;
- (b) it has full legal rights, powers and authorities to sign, deliver and perform this Contract and all other contracts, agreements and documents referred to herein to which it is a party;
- (c) it has taken all appropriate and necessary actions (including resolutions of shareholder's meeting and/or board of directors, as applicable) to authorize the signing, delivery and performance of this Contract and all other contracts, agreements and documents referred to herein, and its representative signing this Contract has obtain full authority to sign this Contract and bind it with a valid power of attorney;
- (d) it has obtained all consents, approvals and authorizations from any company, third party or other entity required by the laws for effectively signing, delivering and performing this Contract and all other contracts, agreements and documents referred to herein to which it is a party, except for any approval of this Contract by the Approval Authority, and this Contract, after approval by the Approval Authority, shall constitute lawful, valid and binding obligations on it, which may be enforced against it according to the terms thereof;
- (e) The execution and performance of this Contract and the completion of the transaction contemplated herein will not violate, or contradict to any terms or conditions of

articles of association, contracts, agreements, laws, and regulations to which it is a party or which have binding force upon it, nor result into violation of such terms and conditions, nor constitute breach under such terms and conditions, including the constitutional documents, business license, rules of procedure or articles of association of the company;

- (f) there are no claims that are pending or threatened against it in relation to the subject matter hereof, or that may affect its ability to execute or perform this Contract in whatever manners;
- (g) All documents, statements and information held by it relating to the transaction contemplated hereunder which may have material effect on its ability to perform obligations hereunder, or which may affect the other Party's willingness materially to execute this Contract if disclosed to the other Party, shall have been fully disclosed to the other Party, and all documents previously provided to the other Party do not contain any untrue statement of material facts, nor omit any necessary material fact the omission of which will cause the statement misleading;
- (h) It has no outstanding undertakings or obligations (contractual or otherwise) that may affect its ability or right to execute and perform this Contract.

17.3 AOS Representations, Warranties and Covenants of AOS

AOS hereby represents, warrants and undertakes to Strategic Industry Fund, Liangjiang Strategic Fund, AOS SH, and APM SH that:

- (a) it is a reputable company duly incorporated and validly existing according to [Bermuda] laws;
- (b) it has full legal rights, powers and authorities to sign, deliver and perform this Contract and all other contracts, agreements and documents referred to herein to which it is a party, including but not limited to the patent and technology of China set forth in Exhibit A;
- (c) it has taken all appropriate and necessary actions to authorize the signing, delivery and performance of this Contract and all other contracts, agreements and documents referred to herein, and its representative signing this Contract has obtain full authority to sign this Contract and bind it with a valid power of attorney;
- (d) it has obtained all consents, approvals and authorizations from any company, third party or other entity required by the laws for effectively signing, delivering and performing this Contract and all other contracts, agreements and documents referred to herein to which it is a party, except for any approval of this Contract by the

Approval Authority, and this Contract, after approval by the Approval Authority, shall constitute lawful, valid and binding obligations on it, which may be enforced against it according to the terms thereof;

- (e) it has obtained all consents, approvals and authorizations from any company, third party or other entity required by the laws for effectively signing, delivering and performing this Contract and all other contracts, agreements and documents referred to herein to which it is a party, except for any approval of this Contract by the Approval Authority, and this Contract, after approval by the Approval Authority, shall constitute lawful, valid and binding obligations on it, which may be enforced against it according to the terms thereof;
- (f) there are no claims that are pending or threatened against it in relation to the subject matter hereof, or that may affect its ability to execute or perform this Contract in whatever manners;
- (g) All documents, statements and information held by it relating to the transaction contemplated hereunder which may have material effect on its ability to perform obligations hereunder, or which may affect the other Party's willingness materially to execute this Contract if disclosed to the other Party, shall have been fully disclosed to the other Party, and all documents previously provided to the other Party do not contain any untrue statement of material facts, nor omit any necessary material fact the omission of which will cause the statement misleading;
- (h) It has no outstanding undertakings or obligations (contractual or otherwise) that may affect its ability or right to execute and perform this Contract.

17.4 Representations, Warranties and Covenants of AOS SH

AOS SH hereby represents, warrants and undertakes to Strategic industry fund, Liangjiang Strategic Fund, APM SH, and AOS that:

- (a) it is a reputable company duly incorporated and validly existing according to China Laws;
- (b) it has full legal rights, powers and authorities to sign, deliver and perform this Contract and all other contracts, agreements and documents referred to herein to which it is a party, including but not limited to the equipment contributed by it set forth in Exhibit B;
- (c) it has taken all appropriate and necessary actions to authorize the signing, delivery and performance of this Contract and all other contracts, agreements and documents

referred to herein, and its representative signing this Contract has obtain full authority to sign this Contract and bind it with a valid power of attorney;

- (d) it has obtained all consents, approvals and authorizations from any company, third party or other entity required by the laws for effectively signing, delivering and performing this Contract and all other contracts, agreements and documents referred to herein to which it is a party, except for any approval of this Contract by the Approval Authority, and this Contract, after approval by the Approval Authority, shall constitute lawful, valid and binding obligations on it, which may be enforced against it according to the terms thereof;
- (e) The execution and performance of this Contract and the completion of the transaction contemplated herein will not violate, or contradict to any terms or conditions of articles of association, contracts, agreements, laws, and regulations to which it is a party or which have binding force upon it, nor result into violation of such terms and conditions, nor constitute breach under such terms and conditions, including the constitutional documents, business license, rules of procedure or articles of association of the company;
- (f) there are no claims that are pending or threatened against it in relation to the subject matter hereof, or that may affect its ability to execute or perform this Contract in whatever manners;
- (g) All documents, statements and information held by it relating to the transaction contemplated hereunder which may have material effect on its ability to perform obligations hereunder, or which may affect the other Party's willingness materially to execute this Contract if disclosed to the other Party, shall have been fully disclosed to the other Party, and all documents previously provided to the other Party do not contain any untrue statement of material facts, nor omit any necessary material fact the omission of which will cause the statement misleading;
- (h) It has no outstanding undertakings or obligations (contractual or otherwise) that may affect its ability or right to execute and perform this Contract.

17.5 Representations, Warranties and Covenants of APM SH

APM SH hereby represents, warrants and undertakes to Strategic industry fund, Liangjiang Strategic Fund, AOS SH and APM SH that:

- (a) it is a reputable company duly incorporated and validly existing according to China Laws;

- (b) it has full legal rights, powers and authorities to sign, deliver and perform this Contract and all other contracts, agreements and documents referred to herein to which it is a party, including but not limited to the equipment contributed by it set forth in Exhibit B;
- (c) it has taken all appropriate and necessary actions to authorize the signing, delivery and performance of this Contract and all other contracts, agreements and documents referred to herein, and its representative signing this Contract has obtain full authority to sign this Contract and bind it with a valid power of attorney;
- (d) it has obtained all consents, approvals and authorizations from any company, third party or other entity required by the laws for effectively signing, delivering and performing this Contract and all other contracts, agreements and documents referred to herein to which it is a party, except for any approval of this Contract by the Approval Authority, and this Contract, after approval by the Approval Authority, shall constitute lawful, valid and binding obligations on it, which may be enforced against it according to the terms thereof;
- (e) The execution and performance of this Contract and the completion of the transaction contemplated herein will not violate, or contradict to any terms or conditions of articles of association, contracts, agreements, laws, and regulations to which it is a party or which have binding force upon it, nor result into violation of such terms and conditions, nor constitute breach under such terms and conditions, including the constitutional documents, business license, rules of procedure or articles of association of the company;
- (f) there are no claims that are pending or threatened against it in relation to the subject matter hereof, or that may affect its ability to execute or perform this Contract in whatever manners;
- (g) All documents, statements and information held by it relating to the transaction contemplated hereunder which may have material effect on its ability to perform obligations hereunder, or which may affect the other Party's willingness materially to execute this Contract if disclosed to the other Party, shall have been fully disclosed to the other Party, and all documents previously provided to the other Party do not contain any untrue statement of material facts, nor omit any necessary material fact the omission of which will cause the statement misleading;
- (h) It has no outstanding undertakings or obligations (contractual or otherwise) that may affect its ability or right to execute and perform this Contract.

Article 18 Confidentiality

18.1 Confidentiality

Before the signing of this Contract and during the term hereof, each Party has disclosed or may disclose to the other Party confidential or proprietary information concerning its business, financial condition, proprietary technology, R&D and other confidential matters. And during the term hereof, each Party may also disclose the above-mentioned information to the JV Company, and such information (including but not limited to this Contract and Articles of Association) of the JV Company may be also disclosed to each Party (collectively referred to as “ **Confidential Information** ”). Each Party and the JV Company receiving Confidential Information shall, during the term of this Contract (including any of its renewal) and within three (3) years after the termination of this Contract:

- (a) Limit the exposure of Confidential Information to the directors, senior officers and employees whose access to such information is necessary for performing this Contract;
- (b) Not to disclose, communicate, transfer, assign, license or deliver any Confidential Information to any third party person directly or indirectly; and
- (c) Not to use Confidential Information for any purposes other than performing this Contract.

18.2 Exceptions

18.1 The non-disclosure provisions of Article 18.1 shall not apply to the following circumstances:

- (a) To make confidential communication with each Party’s Affiliates, professional advisors or banks who bear the same obligation of confidentiality.
- (b) As required by applicable laws and regulations, provided that the Party subject to such requirement shall immediately notify the Party providing such Confidential Information in writing thereof;
- (c) Information which has come into the public domain through no fault of the recipient of Confidential Information;
- (d) Any information disclosed in good faith by a third party person who is not bound by any confidential obligation to the recipient.

18.3 Confidential Measures

Each Party shall and shall procure the JV Company to inform its directors, supervisors, senior officers and employees who have access to Confidential Information of the existence and requirements of Article 18.1, and formulate rules and regulations to procure its and its Affiliates' directors, supervisors, senior officers and employees to comply with the confidential obligations set forth in Article 18.1. Each Party shall and shall procure the JV Company to sign confidential agreements with all directors, supervisors, senior officers and employees who have access to Confidential Information (The signing of labor contracts or other contracts or agreements covering the confidential provisions relating to Confidential Information with such persons shall be deemed to have signed the confidential agreements).

Article 19 Dispute Resolution

19.1 Dispute Resolution

Any dispute, controversy or claim or any breach of this Contract (collectively “ **Dispute** ”) shall be submitted to [Hong Kong International Arbitration Centre (“ **HKIAC** ”)] and be finally resolved according to its arbitration rules. Such rules shall be deemed to have been included in Article 19 hereof, except as modified by this section. The arbitration shall be conducted by a tribunal comprising three (3) arbitrators, of which, one shall be appointed by the Party/Parties applying for arbitration, one by the Party/Parties against whom the arbitration has been initiated, and the third one shall be appointed by the above two arbitrators and shall act as the chief arbitrator. If the former two arbitrators fail to appoint the third arbitrator within twenty-one (21) days after the appointment of the second arbitrator, then the third arbitrator shall be appointed by the chairman of HKIAC. The award made by the tribunal shall be final and binding upon the disputing parties.

19.2 Arbitration Place and Language

The arbitration shall be conducted in Hong Kong and the language to be used in the arbitral proceedings shall be Chinese.

19.3 Time Limit of Arbitral Awards

Each Party irrevocably agrees, the time limit for the final award to be made by the tribunal shall be six (6) months as from the date when the tribunal is formed, provided that, however, the tribunal shall have the right to extend such time limit at its sole discretion based on the request by any Party having good reasons or when it deems necessary.

19.4 Continued Performance

In the course of dispute resolution, each Party shall continue to perform the terms of this Contract other than the disputed matters.

Article 20 Specific Accessory Arrangement

20.1 Patent Maintenance

The JV Company shall bear the maintenance fees of its patents, including sublicense technologies owned or shall be owned by it.

20.2 Non-Competition

AOS Party agrees that it shall not establish new package or/and wafer manufacturing enterprises by itself or joint ventures with other parties providing the same products and services as those provided by the JV Company and competing with the JV Company, until the JV Company's manufacturing output of 12-inch wafer has reached 50 thousand pieces per month and its package test has reached 1250kk units per month.

The JV Company shall not provide any competitors of AOS with products or services which are the same as or similar to those purchased from the JV Company by AOS without the prior written consent of AOS.

Article 21 Miscellaneous

21.1 Effectiveness, Term and Extension of this Contract

- (a) After signing by duly authorized representatives of the Parties, this Contract shall be submitted to the Approval Authority for approval, and shall be effective and binding upon the Parties as from the date when the Approval Certificate is issued by the Approval Authority.
- (b) This Contract shall remain effective until the expiration or early termination of the JV Company. When the term of the JV Contract extends, the term of this Contract shall be also extended accordingly.

21.2 Applicable Laws

The formation, validity, interpretation, performance of this Contract and any dispute resolution arising hereunder shall apply to and comply with the China Laws. In the absence of applicable China Laws with respect to a certain problem, the generally accepted standards and principles of international laws as well as the general international practice shall apply.

21.3 Entire Agreement

This Contract and the Exhibits and Schedules hereto constitute the entire agreement between the Parties with respect to the subject matter hereof, and supersede all prior agreements, contracts, letters of intent, undertakings and communications between the Parties, whether oral or written.

21.4 Headings

The headings in this Contract are inserted for the convenience of reference only and shall not be taken into consideration in the interpretation of this Contract.

21.5 Modification

No modification to this Contract shall be effective unless signed by a duly authorized representative of each Party in writing and approved by the Approval Authority.

21.6 Severability

If any term or provision of this Contract is held to be invalid or unenforceable in whole or in part under any applicable law, then such term or provision shall be excluded from this Contract (only to the extent of such invalidity and unenforceability), and all other terms and provisions of this Contract shall remain in full force and effect. In such a case, each Party shall use its best efforts to implement the text provisions and spirit of this Contract, and supersede such invalid or unenforceable term or provision with valid and enforceable term or provision which conforms as closely as possible to the spirit and purpose of the original term or provision.

21.7 Bound Parties

This Contract shall be binding upon and inure to the benefit of the Parties, their respective successors and administrators, as well as the assigns to whom any Party transfers its rights and interests in the JV Contract.

21.8 Expenses and Expenditures

- (a) Any expenses, expenditures or payments of any nature incurred by any Party before the signing of this Contract shall be borne by such Party, unless other Party agrees in writing to share such expenses, expenditures or payments, or the Parties agree in writing that the JV Company shall bear such expenses, expenditures or payments.

- (b) After the conclusion of this Contract, with respect to any expenditures incurred by any Party in relation to the registration of the JV Company, if the China Laws expressly stipulates that such expenditures shall be borne by the registered company, then such expenditures shall be at the JV Company's expense; if the China Laws is silent, then such expenditures may be borne by the JV Company upon approval of the Board of Directors.
- (c) After the formation of the JV Company, reasonable expenses and expenditures advanced by the Parties for assessment of the non-cash contribution properties and property interests of AOS Party shall be refunded by the JV Company to the Parties making such advances; if the JV Company has not yet formed, such expenses and expenditures shall be borne by the Parties making such advances.
- (d) After the formation of the JV Company, due diligence fees, attorney's fees and professional fees paid by the Parties in relation to the formation of the JV Company shall be refunded by the JV Company to the Parties making such payments, provided that, amount refunded to Fund Party and AOS Party shall not exceed RMB 250 thousand yuan; if the JV Company has not yet formed, such fees and expenditures shall be borne by the Parties making such payments.
- (e) Except as stipulated in this section, if this Contract has special provisions on expenses and expenditures elsewhere, those provisions shall apply.

21.9 Waiver

Any Party's delay in exercising, or failure to exercise, any power, right or remedy under this Contract shall not be construed as a waiver thereof, and the single or partial exercise of any power, right or remedy shall not preclude any other exercise of it. A waiver by a Party of any provisions hereof shall not be deemed a waiver of any other provisions hereof, and such waiver shall not be construed as a waiver of such provisions with respect to any other matters or conditions, whether happen in the past, at present or in future. In addition, the remedies stipulated in this Contract may be used in combination with one another, and are not exclusive of any remedies provided by law.

21.10 Notice

Material communications between the Parties as well as between a Party and the JV Company shall be delivered (i) by hand, or (ii) by air with postage paid, using internationally recognized couriers such as FedEx, UPS, DHL, EMS (EMS can only be used for delivery within Chinese territory) to the address of each Party and the JV Company set forth below. All notices shall be deemed effectively given: (i) if delivered by hand, when delivered; (ii) if delivered by air,

ten (10) business days (based on the business days of the recipient's country) after delivery to the internationally recognized courier.

- (a) Notice to Strategic Industry Fund shall be sent at:

ChongqingYufuCapital Equity Investment Fund Management Co., Ltd.

Address: 16 Floor, Building B1, Tuxing, No.92Xinguang Avenue, Northern New Area, Chongqing, China

Attention: Chen Kun

- (b) Notice to Liangjiang Strategic Fund shall be sent at:

Liangjiang Strategic Fund

Address: 21 Floor, Building T2, No.2 Financial City, Beizui Financial Centre, Jiangbei District, Chongqing, China

Attention: Jiang Lincai

- (c) Notice to AOS Party shall be sent at:

Alpha and Omega Semiconductor Limited

c/o Alpha and Omega Semiconductor Inc.

Address: 475 Oakmead Pkwy, Sunnyvale, CA 94085, USA

Attention: CEO

During the term of this Contract, any Party may change its address at any time, provided that the Party making such change shall forthwith notify other investors and the JV Company in writing thereof.

[Signature page follows]

IN WITNESS WHEREOF , this Contract has been signed by the duly authorized representatives of the Parties in ten (10) counterparts on the date first written above in Chongqing, China.

Chongqing Strategic Emerging Industry Equity Investment Fund Partnership (LP)

Signature of Authorized Representative:

/s/ Changzhi Qiao

Name: Changzhi Qiao

Title: Legal Representative

(Partnership Seal)

Chongqing Liangjiang New Area Strategic Emerging Industry Equity Investment Fund Partnership (LP)

Signature of Authorized Representative:

/s/ Jun Zhang

Name: Jun Zhang

Title: Legal Representative

(Partnership Seal)

Alpha and Omega Semiconductor Limited

Signature of Authorized Representative:

/s/ Mike F. Chang

Name: Mike F. Chang

Title: Chairman of the Board

(Company Seal)

Alpha & Omega Semiconductor (Shanghai) Ltd.

Signature of Authorized Representative:

/s/ Lee Shawn Luo

Name: Lee Shawn Luo

Title: Legal Representative

(Company Seal)

Agape Package Manufacturing (Shanghai) Ltd.

Signature of Authorized Representative:

/s/ Xue Bing

Name: Xue Bing

Title: Legal Representative

(Company Seal)

Exhibit A

AOS

List of Patent and Technology as Contribution by AOS

[*]**

***** CONFIDENTIAL PORTIONS OMITTED AND FILED SEPARATELY WITH THE COMMISSION**

Exhibit B

List of Equipment as Contribution by AOS SH and APM SH

[*]**

***** CONFIDENTIAL PORTIONS OMITTED AND FILED SEPARATELY WITH THE COMMISSION**

Schedule A

Project Budget and Time of Contribution

The time for the Parties to pay all of their subscribed contribution shall be prior to [*]. The time schedule for each Party's actual payment of contribution is arranged as follows:**

No.	Time Schedule	Amount of Contribution by AOS Party (million USD)	Amount of Contribution by Strategic Industry Fund (million USD)	Amount of Contribution by Liangjiang Strategic Fund (million USD)	Use of Funds
1	Within [***] from the date of registration of the JV Company	Equipment 74	22	11	[***].
2	Within [***]from the date of registration of the JV Company	Intangible asset contribution 24	22	11	[***].
3	Within [***]from the date of registration of the JV Company and prior to [***]	Intangible asset contribution 60; Cash contribution 10	36	18	[***].
Total	—	168	80	40	—

*** CONFIDENTIAL PORTIONS OMITTED AND FILED SEPARATELY WITH THE COMMISSION

Schedule B

Initial Organization Chart of the JV Company

[***]

[***]

[***]

[***]

[***]

*** CONFIDENTIAL PORTIONS OMITTED AND FILED SEPARATELY WITH THE COMMISSION

SUPPLEMENTARY CONTRACT TO THE JOINT VENTURE CONTRACT FOR CHONGQING ALPHA AND OMEGA SEMICONDUCTOR LIMITED (THE “JV COMPANY”)

This Supplementary Contract (the “**Contract**”) is signed by the following parties in Chongqing and will come into effect on July 1, 2017 (the “**Effective Date**”):

- (6) **Alpha and Omega Semiconductor Limited**(“**AOS**”), — **Alpha and Omega Semiconductor Limited** (“**AOS**”), a company duly incorporated under the laws of Bermuda.
- (7) **Alpha & Omega Semiconductor (Shanghai) Ltd.** (“**AOS SH**”), a company duly incorporated in Shanghai City under the laws of the People's Republic of China (“**China**”).
- (8) **Agape Package Manufacturing (Shanghai) Ltd.** (“**APM SH**”) , a company duly incorporated in Shanghai City under the laws of the People's Republic of China (“**China**”).
- (9) **Chongqing Strategic Emerging Industry Equity Investment Fund Partnership (LP)** (“**Strategic Industry Fund**”), a partnership duly established in Chongqing City under the laws of the People's Republic of China (“**China**”).
- (10) **Chongqing Liangjiang New Area Strategic Emerging Industry Equity Investment Fund Partnership (LP)** (“**Liangjiang Strategic Fund**”), a partnership duly established in Chongqing City under the laws of the People's Republic of China (“**China**”).

The above five parties are hereinafter collectively referred to as the “**Parties**” and individually as a “**Party**”.

Whereas:

- 1. The Parties signed the *Joint Venture Contract on Incorporation of Chongqing Alpha and Omega Semiconductor Limited (the “JV Company”)* on [March 29], 2016 (the “JV Contract”).
- 2. Chongqing Alpha and Omega Semiconductor Limited (the “JV Company”) starts construction of a production plant and relevant facilities on schedule.
- 3. In order for the JV Company to be successfully established and put into production, the Parties reach a consensus through consultation to increase investment in the JV Company.

To confirm the Parties’ increase of investment in the JV Company, the Parties agree as follows:

- 1. To increase the total investment of the JV Company to USD 400 million.
 - 2. To increase the registered capital of the JV Company to USD 330 million; the increased contribution of USD 42 million shall be subscribed by the following Parties respectively:
-

No.	Name of Investor	Subscribed Amount of Contribution (million USD)	Form of Contribution
1	Strategic Industry Fund	28	Cash
2	Liangjiang Strategic Fund	14	Cash
Total		42	—

3. After the above two Parties increase their investments in the JV Company, the Company's registered capital will be increased to USD 330 million, and its shareholding structure and the Percentage of Contributions will be changed as follows:

1	Strategic Industry Fund	108	Cash	32.73
2	Liangjiang Strategic Fund	54	Cash	16.36
3	AOS SH	31	Package Equipment	9.39
4	APM SH	43	Package Equipment	13.03
5	AOS	94	Patent and know-how (USD 84 million) ; Cash (USD 10 million)	28.49
Total		330	—	100

4. Within 15 days from the Effective Date of this Contract, Strategic Industry Fund and Liangjiang Strategic Fund shall remit their subscribed amount of registered capital totaling USD 42 million to the JV Company's account. The Parties shall be obligated to cause their respective directors designated by them to the JV Company to attend the board meeting in person or by proxy in relation to the approval of the capital increase plan as agreed in this Contract.
5. After the signing of this Contract, the Parties shall revise the Articles of Association based on the new amount and percentage of contribution, while other contents of the Articles of Association shall remain unchanged.
6. This Contract is supplementary to and an integral part of the JV Contract. In case of any discrepancy between the terms of this Contract and the JV Contract, this Contract shall prevail. Any matter not stipulated in this Contract shall be governed by the relevant terms of the JV Contract.
7. This Contract will become effective upon signature of the Parties and approval by the Ministry of Commerce of the People's Republic of China or the examination and approval agencies authorized by the Ministry of Commerce of the People's Republic of China.
8. This Contract is executed in ten counterparts with each party holding one counterpart and the other five retained by the Company.
-

[SIGNATURE PAGES FOLLOW]

(This page is the signature page of *the Supplementary Contract to the Joint Venture Contract for Chongqing Alpha and Omega Semiconductor Limited (the “JV Company”)* without body text.)

This Contract has been signed by the representatives duly authorized by the Parties in ten counterparts in Chongqing, China on the date first written above.

Chongqing Strategic Emerging Industry Equity Investment Fund Partnership (LP)

Signature: _____
Name:
Title: Legal Representative
(Partnership seal)

Chongqing Liangjiang New Area Strategic Emerging Industry Equity Investment Fund Partnership (LP)

Signature: _____
Name:
Title: Legal Representative
(Partnership seal)

Alpha and Omega Semiconductor Limited

Signature: _____
Name:
Title: []

Alpha & Omega Semiconductor (Shanghai) Ltd. (“AOS SH”)

Signature: _____
Name:
Title: Legal Representative
(Company seal)

Agape Package Manufacturing (Shanghai) Ltd. (“APM SH”)

Signature: _____
Name:
Title: Legal Representative
(Company seal)

ALPHA AND OMEGA SEMICONDUCTOR LIMITED
CALENDAR YEAR 2016 EXECUTIVE INCENTIVE PLAN

The following is a summary of the operation of the Executive Incentive Plan (the “Plan”) established by Alpha and Omega Semiconductor Limited (the “Company”) for the calendar year ending December 31, 2016.

Participants

Executive officers and Vice Presidents.

Performance Bonus

Participants are eligible to receive a bonus based on the level of attainment of pre-specified corporate performance goals. The Company’s compensation committee establishes the performance goals to be attained.

Performance Goals

The corporate performance goals for calendar year 2016 are revenue and non-GAAP operating income (after bonus payout). The amount of bonus earned is based on the level of attainment of a range of revenue and non-GAAP operating income for the year. A specified minimum amount of each of the revenue and non-GAAP operating income goals must be achieved before payment of an award under the Plan. The actual aggregate amount of the award earned by an executive officer for the calendar year will range from \$0 to the maximum amount established for that officer (as set forth below) depending on the level of attainment of the performance goals. As used herein, the term “non-GAAP operating income” means the Company’s operating income as determined in accordance with U.S. GAAP but excluding (i) share-based compensation expenses recorded under FASB ASC Topic 718; (ii) impairment of long-lived assets; (iii) non-recurring inventory write-down; (iv) acquisition cost; and (v) any other adjustment made to arrive at the Company’s non-GAAP operating income as presented in the Company filings with the Securities Exchange Commission, including any Item 2.02 disclosures on Form 8-K relating to the Company’s quarterly financial information.

Payment of Awards: Cash and RSU Pool

The amount of the bonus award will be paid in a combination of cash and restricted share units (“RSU”) covering shares of Company common shares (with the number of shares based on the closing price of the common shares on the last trading date of the year). The specific allocation between cash and RSUs in the bonus award will vary depending on the level of attainment of the non-GAAP operating income and annual revenue goals, provided that the number of RSUs to be granted may not exceed certain dilution cap. RSU award will vest in four equal annual installments subject to the executive officer’s continued service through each vesting date.

Target Bonus Awards

The Company’s compensation committee establishes the bonuses payable based on the level of attainment of the corporate performance goals. The target bonuses for each executive officer for calendar year 2016, as a percentage of base salary, are as follows:

Name	Title	Minimum Bonus	Target Bonus	Maximum Bonus
Mike F. Chang	Chief Executive Officer	20%	100%	220%
Yifan Liang	Chief Financial Officer and Corporate Secretary	12%	60%	132%
Yueh-Se Ho	Chief Operating Officer	12%	60%	132%
Daniel Kuang Ming Chang	Senior Vice President of Marketing	10%	50%	110%

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO
SECURITIES EXCHANGE ACT RULES 13a-14(a) and 15d-14(a), AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Mike F. Chang, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Alpha and Omega Semiconductor Limited (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2016

/s/ Mike F. Chang

Mike F. Chang
Chief Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO
SECURITIES EXCHANGE ACT RULES 13a-14(a) and 15d-14(a), AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Yifan Liang, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Alpha and Omega Semiconductor Limited (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2016

/s/ Yifan Liang

Yifan Liang *Chief Financial Officer and Corporate Secretary*

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

I, Mike F. Chang, chief executive officer of Alpha and Omega Semiconductor Limited (the "Company"), certify for the purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge,

- a. the Quarterly Report of the Company on Form 10-Q for the fiscal quarter ended March 31, 2016 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- b. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 10, 2016

/s/ Mike F. Chang

Mike F. Chang
Chief Executive Officer

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

I, Yifan Liang, chief financial officer of Alpha and Omega Semiconductor Limited (the "Company"), certify for the purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge,

- a. the Quarterly Report of the Company on Form 10-Q for the fiscal quarter ended March 31, 2016 (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- b. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 10, 2016

/s/ Yifan Liang

Yifan Liang
Chief Financial Officer and Corporate Secretary