

**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, 2014

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, 2014: 26,132,654.

Alpha and Omega Semiconductor Limited
Form 10-Q
Fiscal Third Quarter Ended March 31, 2014
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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, 2014	June 30, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 110,634	\$ 92,406
Restricted cash	203	204
Accounts receivable, net	37,151	38,298
Inventories	59,802	68,339
Deferred income tax assets	1,701	3,030
Other current assets	3,736	3,578
Total current assets	213,227	205,855
Property, plant and equipment, net	123,686	138,111
Intangible assets, net	213	496
Goodwill	269	269
Deferred income tax assets - long term	10,751	10,823
Other long-term assets	1,618	767
Total assets	\$ 349,764	\$ 356,321
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short term debt	\$ 3,107	\$ 3,821
Accounts payable	27,949	31,738
Accrued liabilities	16,910	14,571
Income taxes payable	1,656	1,472
Deferred margin	629	622
Capital leases	453	1,267
Total current liabilities	50,704	53,491
Long-term debt	11,429	13,571
Income taxes payable - long term	2,383	3,692
Deferred income tax liabilities	2,164	2,613
Capital leases - long term	83	195
Deferred rent	1,187	1,308
Total liabilities	67,950	74,870
Commitments and contingencies (Note 9)		
Shareholders' equity:		
Preferred shares, par value \$0.002 per share:		
Authorized: 10,000 shares, issued and outstanding: none at March 31, 2014 and June 30, 2013	—	—
Common shares, par value \$0.002 per share:		
Authorized: 50,000 shares, issued and outstanding: 26,345 shares and 26,125 shares at March 31, 2014 and 25,882 shares and 25,656 shares at June 30, 2013	53	51
Treasury shares at cost, 220 shares at March 31, 2014 and 226 shares at June 30, 2013	(1,973)	(2,054)
Additional paid-in capital	171,524	168,352
Accumulated other comprehensive income	975	957
Retained earnings	111,235	114,145
Total shareholders' equity	281,814	281,451
Total liabilities and shareholders' equity	\$ 349,764	\$ 356,321

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,	
	2014	2013	2014	2013
Revenue	\$ 75,405	\$ 75,015	\$ 235,791	\$ 260,224
Cost of goods sold	63,095	69,770	192,711	208,852
Gross profit	12,310	5,245	43,080	51,372
Operating expenses				
Research and development	5,977	6,876	17,796	20,675
Selling, general and administrative	9,256	8,917	25,505	26,536
Impairment of long-lived assets	—	2,557	—	2,557
Total operating expenses	15,233	18,350	43,301	49,768
Operating income (loss)	(2,923)	(13,105)	(221)	1,604
Interest income	52	22	90	59
Interest expense	(62)	(93)	(210)	(282)
Income (loss) before income taxes	(2,933)	(13,176)	(341)	1,381
Income tax expense (benefit)	361	(3)	2,486	2,894
Net loss	\$ (3,294)	\$ (13,173)	\$ (2,827)	\$ (1,513)
Net loss per share				
Basic	\$ (0.13)	\$ (0.52)	\$ (0.11)	\$ (0.06)
Diluted	\$ (0.13)	\$ (0.52)	\$ (0.11)	\$ (0.06)
Weighted average number of common shares used to compute net loss per share				
Basic	26,067	25,467	25,865	25,266
Diluted	26,067	25,467	25,865	25,266

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,	
	2014	2013	2014	2013
Net loss	\$ (3,294)	\$ (13,173)	\$ (2,827)	\$ (1,513)
Foreign currency translation adjustment	(31)	(48)	18	7
Total comprehensive loss	<u>\$ (3,325)</u>	<u>\$ (13,221)</u>	<u>\$ (2,809)</u>	<u>\$ (1,506)</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,	
	2014	2013
Cash flows from operating activities		
Net loss	\$ (2,827)	\$ (1,513)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	20,577	21,872
Amortization	283	429
Allowance for doubtful accounts	(363)	—
Share-based compensation expense	2,175	3,576
Deferred income taxes, net	952	510
(Gain) loss on disposal of property and equipment	(120)	138
Impairment of long-lived assets	—	2,557
Changes in assets and liabilities:		
Accounts receivable	1,509	9,038
Inventories	8,538	(1,315)
Other current and long-term assets	(1,008)	602
Accounts payable	(3,683)	5,442
Income taxes payable	(1,125)	633
Accrued and other liabilities	2,053	(5,716)
Net cash provided by operating activities	26,961	36,253
Cash flows from investing activities		
Purchases of property and equipment	(6,462)	(14,046)
Proceeds from sale of property and equipment	244	—
Restricted cash released	1	35
Net cash used in investing activities	(6,217)	(14,011)
Cash flows from financing activities		
Proceeds from exercise of stock options and ESPP	1,279	2,255
Payment for repurchase of common shares	—	(5)
Proceeds from borrowings	—	250
Repayments of borrowings	(2,857)	(2,143)
Principal payments on capital leases	(927)	(726)
Net cash used in financing activities	(2,505)	(369)
Effect of exchange rate changes on cash and cash equivalents	(11)	1
Net increase in cash and cash equivalents	18,228	21,874
Cash and cash equivalents at beginning of period	92,406	82,166
Cash and cash equivalents at end of period	\$ 110,634	\$ 104,040
Supplemental disclosures of non-cash investing and financing information:		
Property and equipment purchased but not yet paid	\$ 1,635	\$ 3,430
Re-issuance of treasury stock	\$ 83	\$ 153

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 portable 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, Macau, 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, 2013. 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 period presented have been included in the interim periods. Operating results for the three and nine months ended March 31, 2014 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2014. The condensed consolidated balance sheet at June 30, 2013 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, 2013.

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, variable interest entities, and useful lives for property, plant and equipment and intangible assets.

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. The carrying value of the Company's debt is considered a reasonable estimate of fair value which is estimated by considering the current rates available to the Company for debt of the same remaining maturities, structure and terms of the debts.

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 estimated fair value.

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

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 July 2013, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") 2013-11, Income Taxes (Topic 740) Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The new guidance requires the netting of unrecognized tax benefits ("UTBs") against a deferred tax asset for a loss or other carryforward that would apply in settlement of the uncertain tax positions. Under the new standard, UTBs will be netted against all available same-jurisdiction loss or other tax carryforwards that would be utilized, rather than only against carryforwards that are created by the UTBs. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted. The ASU should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The Company does not expect the adoption of this guidance to have any significant impact on the Company's condensed consolidated financial statements.

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,	
	2014	2013	2014	2013
	(in thousands, except per share data)			
Numerator:				
Net loss	\$ (3,294)	\$ (13,173)	\$ (2,827)	\$ (1,513)
Denominator:				
Basic:				
Weighted average number of common shares used to compute basic net loss per share	26,067	25,467	25,865	25,266
Diluted:				
Weighted average number of common shares used to compute basic net loss per share	26,067	25,467	25,865	25,266
Effect of potentially dilutive securities:				
Stock options, RSUs and ESPP shares	—	—	—	—
Weighted average number of common shares used to compute diluted net loss per share	26,067	25,467	25,865	25,266
Net loss per share:				
Basic	\$ (0.13)	\$ (0.52)	\$ (0.11)	\$ (0.06)
Diluted	\$ (0.13)	\$ (0.52)	\$ (0.11)	\$ (0.06)

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

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,	
	2014	2013	2014	2013
	(in thousands)			
Employee stock options and RSUs	3,660	4,119	3,907	3,218
ESPP to purchase common shares	539	858	609	453
Total potential dilutive securities	4,199	4,977	4,516	3,671

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 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 financial assets 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 bad debt 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 10% or higher than the respective total consolidated amounts:

Percentage of revenue	Three Months Ended March 31,		Nine Months Ended March 31,	
	2014	2013	2014	2013
Customer A	20.1%	21.4%	21.1%	23.2%
Customer B	44.9%	45.5%	43.8%	43.5%
Customer C	11.2%	10.8%	12.0%	12.0%

Percentage of accounts receivable	March 31, 2014	June 30, 2013
Customer A	21.6%	33.8%
Customer B	34.6%	22.6%
Customer C	15.9%	19.9%

4. Balance Sheet Components

Accounts receivable:

	March 31, 2014	June 30, 2013
	(in thousands)	
Accounts receivable	\$ 50,733	\$ 52,202
Less: Allowance for price adjustments	(13,552)	(13,152)
Less: Allowance for doubtful accounts	(30)	(752)
Accounts receivable, net	\$ 37,151	\$ 38,298

Inventories:

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

	March 31, 2014	June 30, 2013
	(in thousands)	
Raw materials	\$ 17,034	\$ 17,248
Work in-process	35,929	38,618
Finished goods	6,839	12,473
	<u>\$ 59,802</u>	<u>\$ 68,339</u>

Property, plant and equipment, net:

	March 31, 2014	June 30, 2013
	(in thousands)	
Land	\$ 4,950	\$ 4,950
Building	4,106	4,106
Manufacturing machinery and equipment	159,963	156,958
Equipment and tooling	10,453	10,356
Computer equipment and software	17,152	16,140
Office furniture and equipment	1,618	1,559
Leasehold improvements	24,674	24,068
	<u>222,916</u>	<u>218,137</u>
Less: Accumulated depreciation	(107,737)	(87,180)
	<u>115,179</u>	<u>130,957</u>
Equipment and construction in progress	8,507	7,154
Property, plant and equipment, net	<u>\$ 123,686</u>	<u>\$ 138,111</u>

Other long-term assets:

	March 31, 2014	June 30, 2013
	(in thousands)	
Prepayments for property and equipment	\$ 1,089	\$ 77
Investment in a privately held company	100	100
Deferred debt issuance cost	21	91
Office leases deposits	408	499
	<u>\$ 1,618</u>	<u>\$ 767</u>

Accrued liabilities:

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

	March 31, 2014	June 30, 2013
	(in thousands)	
Accrued salaries and wages	\$ 4,102	\$ 3,079
Accrued vacation	1,398	2,078
Accrued bonuses	946	880
Warranty accrual	1,181	1,428
Stock rotation accrual	2,794	1,572
Accrued professional fees	731	918
ESPP payable	767	353
Customer deposits	107	123
Other accrued expenses	4,884	4,140
	<u>\$ 16,910</u>	<u>\$ 14,571</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,	
	2014	2013
	(in thousands)	
Beginning balance	\$ 1,428	\$ 1,556
Additions	939	117
Utilization	(1,186)	(699)
Ending balance	<u>\$ 1,181</u>	<u>\$ 974</u>

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

	Nine Months Ended March 31,	
	2014	2013
	(in thousands)	
Beginning balance	\$ 1,572	\$ 2,032
Additions	3,702	4,349
Utilization	(2,480)	(4,871)
Ending balance	<u>\$ 2,794</u>	<u>\$ 1,510</u>

5. Debt

On May 11, 2012, the Company entered into a loan agreement with a financial institution that provides a term loan of \$20.0 million for general purposes and a \$10.0 million non-revolving credit line for the purchase of equipment. Both the term loan and equipment line will be fully repayable in May 2015. The borrowings may be made in the form of either Eurodollar loans or Base Rate loans. Eurodollar loans accrue interest based on an adjusted London Interbank Offered Rate ("LIBOR") as defined in the agreement, plus a margin of 1.00% to 1.75%. Base Rate loans accrue interest at the highest of (a) the lender's Prime Rate, (b) the Federal Funds Rate plus 0.5% and (c) the Eurodollar Rate (for a one-month interest period) plus 1%; plus a margin of -0.5% to 0.25%. The applicable margins for both Eurodollar loans and Base Rate loans will vary from time to time in the foregoing ranges based on the cash and cash equivalent balances maintained by the Company and its subsidiaries with the lender. In May 2013, the equipment credit line expired and there was no outstanding balance. As of March 31, 2014 and June 30, 2013, the outstanding balances of the term loan were \$14.3 million and \$17.1 million, respectively. Of the \$14.3 million and \$17.1 million term loan, \$2.9 million and \$3.6 million were included as short-term debt as of March 31, 2014 and June 30, 2013, respectively.

The obligations under the term loan are secured by substantially all assets of two subsidiaries of the Company, including, but not limited to, certain real property and related assets located at the Oregon fab. In addition, the Company and certain subsidiaries of the Company have agreed to guarantee full repayment and performance of the obligations under the loan agreement. The loan agreement contains customary restrictive covenants and includes certain financial covenants that require the Company to maintain on a consolidated basis specified financial ratios including total liabilities to tangible net worth, fixed charge coverage and current assets to current liabilities. As of March 31, 2014, the Company was in compliance with these covenants.

During July 2012, the Company entered into a loan agreement with the State of Oregon for an amount of \$0.3 million. The loan is required to be used for training new and re-training existing employees of the Oregon Fab. The loan bears a compound annual interest rate of 5.0% and is to be repaid in April 2014. The State of Oregon may forgive the outstanding balance under the loan and any unpaid interest if the Company meets certain conditions primarily relating to hiring targets. Currently the State of Oregon is reviewing the loan to determine whether such conditions are satisfied. The Company believes that it is more likely than not that it will meet those hiring targets. As of March 31, 2014 and June 30, 2013, the outstanding balance and accrued interest of the loan, included in short term debt, was \$0.3 million and \$0.3 million, respectively.

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

6. Shareholders' Equity and Share-based Compensation

Share Repurchase

On October 22, 2010, the Company's Board of Directors authorized a \$25.0 million share repurchase program. Under this repurchase program the Company may, from time to time, repurchase shares from the open market or in privately negotiated transactions, subject to supervision and oversight by the Board. 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 stock-based compensation programs. Gains on re-issuance of treasury stock are credited to additional paid-in capital; losses are charged 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 charged to retained earnings.

During the three and nine months ended March 31, 2014, the Company did not repurchase any shares under the program. During the three and nine months ended March 31, 2014, the Company reissued 2,900 and 5,850 shares, respectively, with weighted average repurchase cost of \$13.82 per share for both periods, upon vesting of certain restricted stock units ("RSU").

On or about May 5, 2014, the Company's Board of Directors approved to reactivate the share repurchase program with a remaining balance of \$22.7 million.

Stock Options

The following table summarizes the Company's stock option activities for the nine months ended March 31, 2014 :

	Number of Shares	Weighted Average Exercise Price Per Share	Aggregate Intrinsic Value
Outstanding at June 30, 2013	3,593,854	\$ 10.24	\$ 3,144,506
Granted	734,375	\$ 7.45	
Exercised	(255,471)	\$ 1.82	\$ 1,435,044
Canceled or forfeited	(633,421)	\$ 11.92	
Outstanding at March 31, 2014	3,439,337	\$ 9.96	\$ 1,542,180

Information with respect to stock options outstanding and exercisable at March 31, 2014 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	3,439,337	5.88	\$ 9.96	2,335,327	\$ 10.43
Options vested and expected to vest	3,333,914	5.77	\$ 10.02		

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, 2014 with the following weighted average assumptions:

	Nine Months Ended March 31, 2014
Volatility rate	47%
Risk-free interest rate	1.6% - 1.7%
Expected term	5.5 years
Dividend yield	0%

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

Restricted Stock Units ("RSU")

The following table summarizes the Company's RSU activities for the nine months ended March 31, 2014 :

	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, 2013	549,553	\$ 9.50	1.87	\$ 4,198,585
Granted	338,554	\$ 7.48		
Vested	(122,963)	\$ 9.50		
Forfeited	(98,102)	\$ 9.71		
Nonvested at March 31, 2014	667,042	\$ 8.44	1.95	\$ 4,909,429
RSUs vested and expected to vest	593,184		1.88	\$ 4,365,832

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

The Employee Share Purchase Plan (the "ESPP") was established in May 2010 upon the completion of the Company's initial public offering. The assumptions used to estimate the fair values of common shares issued under the ESPP were as follows:

	Nine Months Ended March 31, 2014
Volatility rate	50%
Risk-free interest rate	0.1% - 0.3%
Expected term	1.3 years
Dividend yield	0%

Share-based Compensation Expense

The total share-based compensation expense related to stock options, ESPP and RSUs 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,	
	2014	2013	2014	2013
	(in thousands)		(in thousands)	
Cost of goods sold	\$ 119	\$ 191	\$ 457	\$ 530
Research and development	221	353	484	1,024
Selling, general and administrative	521	678	1,234	2,022
	\$ 861	\$ 1,222	\$ 2,175	\$ 3,576

Total unrecognized stock-based compensation expense as of March 31, 2014 was \$6.8 million , which includes estimated forfeitures and is expected to be recognized over a weighted-average period of 1.7 years.

7. Income Taxes

The Company recognized income tax expense of approximately \$0.4 million for the three months ended March 31, 2014 and income tax benefit of \$3,000 for the three months ended March 31, 2013 . The Company recognized income tax expense of approximately \$2.5 million and \$2.9 million for the nine months ended March 31, 2014 and 2013 , respectively. The estimated effective tax rate was (12.3)% and 0.0% for the three months ended March 31, 2014 and 2013 , respectively. The estimated effective tax rate was (729.0)% and 209.6% for the nine months ended March 31, 2014 and 2013 , respectively. The negative effective tax rate for the three and the nine months ended March 31, 2014 was primarily due to the changes in the mix of

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earnings in various geographic jurisdictions between the two periods along with a recognition of approximately \$1.0 million previously unrecognized tax benefits and related interest accruals following the lapse of the applicable statute of limitations.

The Company files its income tax returns in the United States and in various foreign jurisdictions. The tax years 2001 to 2013 remain open to examination by U.S. federal and state tax authorities. The tax years 2005 to 2013 remain open to examination by foreign tax authorities.

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, 2014, the gross amount of unrecognized tax benefits was approximately \$6.7 million. 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.

8. 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,	
	2014	2013	2014	2013
	(in thousands)		(in thousands)	
Hong Kong	\$ 65,026	\$ 62,927	\$ 200,511	\$ 208,805
China	8,497	9,765	29,545	42,730
South Korea	775	1,162	2,317	4,822
United States	513	399	1,411	1,055
Other countries	594	762	2,007	2,812
	<u>\$ 75,405</u>	<u>\$ 75,015</u>	<u>\$ 235,791</u>	<u>\$ 260,224</u>

The following is a summary of revenue by product type:

	Three Months Ended March 31,		Nine Months Ended March 31,	
	2014	2013	2014	2013
	(in thousands)		(in thousands)	
Power discrete	\$ 58,563	\$ 58,374	\$ 182,654	\$ 204,679
Power IC	12,844	12,252	39,682	39,719
Packaging and testing services	3,998	4,389	13,455	15,826
	<u>\$ 75,405</u>	<u>\$ 75,015</u>	<u>\$ 235,791</u>	<u>\$ 260,224</u>

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

	March 31, 2014	June 30, 2013
	(in thousands)	
China	\$ 82,955	\$ 93,663
United States	40,326	43,946
Other Countries	405	502
	<u>\$ 123,686</u>	<u>\$ 138,111</u>

9. Commitments and Contingencies

Purchase Commitments

As of March 31, 2014 and June 30, 2013, the Company had approximately \$34.9 million and \$25.8 million, respectively, of outstanding purchase commitments primarily for purchases of semiconductor raw materials, wafers, spare parts and packaging and testing services, and approximately \$3.0 million and \$0.4 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 may 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, 2014 and June 30, 2013.

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.

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, 2013 , filed with the Securities and Exchange Commission on August 30, 2013.

Overview

We are a designer, developer and global supplier of a broad portfolio of power semiconductors. Our portfolio of power semiconductors includes over 1,400 products, and has grown rapidly with the introduction of over 195 new products during the fiscal year 2013, and over 240 and 190 new products in the fiscal years 2012 and 2011, respectively. During the nine months ended March 31, 2014 , we introduced an additional 127 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 392 patents and 205 patent applications in the United States as of March 31, 2014 . 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 located in Hillsboro, Oregon, ("the Oregon fab") which is critical for us to accelerate proprietary technology development and new product introduction and to improve our financial performance in the long run. For example, in calendar year 2012 and 2013, we were able to triple the number of new technology platforms released as compared to prior years. These platforms have allowed us to develop a new generation of low voltage MOSFET products, our Gen 5 AlphaMOS, and introduce AlphaMOSII high voltage technology and new medium voltage products. To meet the market demand for the 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. We believe our in-house packaging and testing capability provides us with a competitive advantage in proprietary packaging technology, product quality, cost and cycle time.

In response to the continuing decline of the PC markets, we implemented certain cost cutting measures such as Company shut downs, headcount reduction and compensation reduction of selected employees during the quarter ended December 31, 2013. The compensation of those selected employees has been reinstated to the previous level starting January 2014.

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 markets can have a material adverse effect on our revenue and results of operations. Our revenue from the PC markets accounted for approximately 42.8% and 47.6% of our total revenue for the three months ended March 31, 2014 and 2013 , respectively, and 44.7% and 51.4% for the nine months ended March 31, 2014 and 2013 , respectively. Since the beginning of calendar year 2013,

we have experienced a significant global decline in the PC markets 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 have been executing and are continuing to execute strategies to diversify our product portfolio and penetrate other market segments, such as the consumer, communication and industrial market segments, which we believe will mitigate and eventually overcome the reduced demand resulting from the declining PC markets. As we develop and sell new products that serve more diversified markets, we expect that sales based on the PC markets, as a percentage of the total revenue, will continue to decline. However, if the rate of decline in the PC markets is faster than we expect, or if we cannot successfully diversify or introduce new products to keep pace with the declining PC markets, we may not be able to alleviate its negative impact, which will adversely affect our results of operations.

Manufacturing costs : Our gross margin may be affected by our manufacturing costs, including utilization of our own manufacturing facilities, pricing of wafers from other 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 in-house packaging and testing facilities and our Oregon fab. If we are unable to utilize the capacity of our in-house manufacturing facilities at a desired level, our gross margin may be adversely affected. In addition, the continuing decline of the PC markets as discussed above as well as the cost cutting measures such as Company shut downs during the quarter ended December 31, 2013, contributed to a reduced level of capacity utilization at our manufacturing facilities. If we are not able to mitigate the negative impact of the declining PC markets, we may not be able to improve our factory utilization or offset the increasing manufacturing costs, which could have a material adverse effect on our gross margin.

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 that average selling prices of our existing products will continue to decline in the future. However, in the normal course of business, we seek to offset the effect of declining average selling prices 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 important in securing design wins with our customers. We have introduced new mid- and high-voltage products as part of our business strategy to diversify our product portfolios and penetrate new markets such as the power supply and industrial markets. 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 and our inability to continue to expand our serviceable markets could adversely affect our financial performance, including loss of market share with customers.

In addition, our financial performance may decline if we experience significant product compatibility issues. We recorded a non-cash, non-recurring inventory valuation charge in the amount of \$7.7 million during the quarter ended March 31, 2013, approximately \$5.7 million of which was attributable to newly developed products for desktop PC applications for a major OEM because these products were not compatible with its particular applications. While we have resolved this issue with the OEM, similar product compatibility issues may arise with other products or OEMs, and the solutions we implemented may not be fully effective in preventing future occurrences.

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 outlooks 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, and 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-year 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. We estimate for 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 have recently 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 the 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 markets 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 for research and development personnel. 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 will 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 markets.

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.

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, 2014 and 2013. 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,			
	2014	2013	2014	2013	2014	2013	2014	2013
	(in thousands)		(% of revenue)		(in thousands)		(% of revenue)	
Revenue	\$ 75,405	\$ 75,015	100.0 %	100.0 %	\$ 235,791	\$ 260,224	100.0 %	100.0 %
Cost of goods sold	63,095	69,770	83.7 %	93.0 %	192,711	208,852	81.7 %	80.3 %
Gross profit	12,310	5,245	16.3 %	7.0 %	43,080	51,372	18.3 %	19.7 %
Operating expenses								
Research and development	5,977	6,876	7.9 %	9.2 %	17,796	20,675	7.5 %	7.9 %
Selling, general and administrative	9,256	8,917	12.3 %	11.9 %	25,505	26,536	10.8 %	10.2 %
Impairment of long-lived assets	—	2,557	— %	3.4 %	—	2,557	— %	1.0 %
Total operating expenses	15,233	18,350	20.2 %	24.5 %	43,301	49,768	18.3 %	19.1 %
Operating income (loss)	(2,923)	(13,105)	(3.9)%	(17.5)%	(221)	1,604	(0.1)%	0.6 %
Interest income	52	22	0.1 %	— %	90	59	— %	— %
Interest expense	(62)	(93)	(0.1)%	(0.1)%	(210)	(282)	(0.1)%	(0.1)%
Income (loss) before income taxes	(2,933)	(13,176)	(3.9)%	(17.6)%	(341)	1,381	(0.1)%	0.5 %
Income tax expense (benefit)	361	(3)	0.5 %	— %	2,486	2,894	1.1 %	1.1 %
Net loss	\$ (3,294)	\$ (13,173)	(4.4)%	(17.6)%	\$ (2,827)	\$ (1,513)	(1.2)%	(0.6)%

Share-based compensation expense was allocated as follow:

	Three Months Ended March 31,				Nine Months Ended March 31,			
	2014	2013	2014	2013	2014	2013	2014	2013
	(in thousands)		(% of revenue)		(in thousands)		(% of revenue)	
Cost of goods sold	\$ 119	\$ 191	0.2%	0.3%	\$ 457	\$ 530	0.2%	0.2%
Research and development	221	353	0.3%	0.5%	484	1,024	0.2%	0.4%
Selling, general and administrative	521	678	0.7%	0.9%	1,234	2,022	0.5%	0.8%
Total	\$ 861	\$ 1,222	1.2%	1.7%	\$ 2,175	\$ 3,576	0.9%	1.4%

Revenue

The following is a summary of revenue by product type:

	Three Months Ended March 31,				Nine Months Ended March 31,			
	2014	2013	Change		2014	2013	Change	
	(in thousands)		(in thousands)	(in percentage)	(in thousands)		(in thousands)	(in percentage)
Power discrete	\$ 58,563	\$ 58,374	\$ 189	0.3 %	\$ 182,654	\$ 204,679	\$ (22,025)	(10.8)%
Power IC	12,844	12,252	592	4.8 %	39,682	39,719	(37)	(0.1)%
Packaging and testing services	3,998	4,389	(391)	(8.9)%	13,455	15,826	(2,371)	(15.0)%
	<u>\$ 75,405</u>	<u>\$ 75,015</u>	<u>\$ 390</u>	<u>0.5 %</u>	<u>\$ 235,791</u>	<u>\$ 260,224</u>	<u>\$ (24,433)</u>	<u>(9.4)%</u>

Total revenue was \$75.4 million for the three months ended March 31, 2014, an increase of \$0.4 million, or 0.5%, as compared to \$75.0 million for the same period last year. The increase consisted of \$0.2 million and \$0.6 million in sales of power discrete and power IC products, respectively, partially offset by a decrease in sales of packaging and testing services of \$0.4 million. The increase in sales of power discrete and power IC products was primarily due to a 9.7% increase in unit shipments, partially offset by a 7.9% decrease in average selling price as compared to the same period of last year mainly due to a shift in product mix and selling price erosion in the computing and consumer markets. The decrease in revenue of packaging and testing services for the three months ended March 31, 2014 as compared to the same period last year was primarily due to reduced demand as a result of the declining PC markets.

Total revenue was \$235.8 million for the nine months ended March 31, 2014, a decrease of \$24.4 million, or 9.4%, as compared to \$260.2 million for the same period last year. The decrease primarily consisted of \$22.0 million and \$2.4 million decrease in sales of power discrete products and packaging and testing services, respectively. The decrease in sales of power IC products was immaterial. The decrease in sales of power discrete and power IC products was primarily due to a 2.9% decrease in unit shipments as well as a 6.5% decrease in average selling price primarily due to selling price erosion in the computing and consumer markets and to a lesser extent, a shift in product mix as a result of reduced demand for our products related to PC applications. The decrease in revenue of packaging and testing services for the nine months ended March 31, 2014 compared to the prior year comparable period was primarily due to reduced demand as a result of the declining PC markets.

Cost of goods sold and gross profit

	Three Months Ended March 31,				Nine Months Ended March 31,			
	2014	2013	Change		2014	2013	Change	
	(in thousands)		(in thousands)	(in percentage)	(in thousands)		(in thousands)	(in percentage)
Cost of goods sold	\$ 63,095	\$ 69,770	\$ (6,675)	(9.6)%	\$ 192,711	\$ 208,852	\$ (16,141)	(7.7)%
Percentage of revenue	83.7%	93.0%			81.7%	80.3%		
Gross profit	\$ 12,310	\$ 5,245	\$ 7,065	134.7 %	\$ 43,080	\$ 51,372	\$ (8,292)	(16.1)%
Percentage of revenue	16.3%	7.0%			18.3%	19.7%		

Cost of goods sold was \$63.1 million for the three months ended March 31, 2014, a decrease of \$6.7 million, or 9.6%, as compared to \$69.8 million for the same period last year, primarily as a result of the \$7.7 million non-recurring inventory write-down during the same period last year for certain excess and obsolete inventory consisting of developed products for desktop PC applications for a major OEM that were not compatible with its particular applications, which had subsequently been fully resolved; and to a lesser extent, products for power supplies. The decrease was partially offset by increased unit shipments during the three months ended March 31, 2014. Gross margin increased by 9.3 percentage points to 16.3% for the three months ended March 31, 2014 as compared to 7.0% for the same period last year. The increase in gross margin was primarily due to the impact of the \$7.7 million non-recurring inventory write-down for the same period last year and higher factory utilization during the three months ended March 31, 2014, partially offset by decreased average selling price during the three months ended March 31, 2014.

Cost of goods sold was \$192.7 million for the nine months ended March 31, 2014, a decrease of \$16.1 million, or 7.7%, as compared to \$208.9 million for the same period last year primarily as a result of decreased unit shipments for the nine months ended March 31, 2014 as a result of the declining PC markets. Also, the period last year reflected a \$7.7 million non-recurring inventory write-down. Gross margin decreased by 1.4 percentage points to 18.3% for the nine months ended March 31, 2014, as compared to 19.7% for the same period last year. The decrease in gross margin was primarily due to the impact of the \$7.7 million non-recurring inventory write-down for the same period last year, reduced average selling prices mainly due to the continuing lower demand in the declining PC markets as compared to the same period last year as well as lower factory utilization partially offset by the positive impact of continued expense control during the current period. We expect our gross

margin to continue to fluctuate in the future as a result of variations in our product mix, factory utilization, semiconductor wafer and raw material pricing, manufacturing labor cost and general economic conditions.

Research and development expenses

	Three Months Ended March 31,				Nine Months Ended March 31,			
	2014	2013	Change		2014	2013	Change	
	(in thousands)		(in thousands)	(in percentage)	(in thousands)		(in thousands)	(in percentage)
Research and development	\$ 5,977	\$ 6,876	\$ (899)	(13.1)%	\$ 17,796	\$ 20,675	\$ (2,879)	(13.9)%

Research and development expenses were \$6.0 million for the three months ended March 31, 2014 , a decrease of \$0.9 million , or 13.1% , as compared to \$6.9 million for the same period last year. The decrease was primarily attributable to a \$0.8 million decrease in product prototyping engineering expenses and a \$0.1 million decrease in share-based compensation expense primarily due to increased cancellations of stock options and awards in the current quarter as well as the previous quarter.

Research and development expenses were \$17.8 million for the nine months ended March 31, 2014 , a decrease of \$2.9 million , or 13.9% , as compared to \$20.7 million for the same period last year. The decrease was primarily attributable to a \$2.2 million decrease in product prototyping engineering expenses mainly due to Company shut downs during the current period as cost control measures, and a \$0.5 million decrease in share-based compensation expense primarily due to increased cancellations of stock options and awards in current period, as well as \$0.1 million decrease in depreciation and amortization expense as a result of certain assets were fully amortized in fiscal year of 2013. We continue to evaluate and invest resources in developing new technologies and products utilizing our own fabrication and packaging facilities. We expect our research and development expenses to continue to fluctuate from time to time.

Selling, general and administrative expenses

	Three Months Ended March 31,				Nine Months Ended March 31,			
	2014	2013	Change		2014	2013	Change	
	(in thousands)		(in thousands)	(in percentage)	(in thousands)		(in thousands)	(in percentage)
Selling, general and administrative	\$ 9,256	\$ 8,917	\$ 339	3.8%	\$ 25,505	\$ 26,536	\$ (1,031)	(3.9)%

Selling, general and administrative expenses were \$9.3 million for the three months ended March 31, 2014 , an increase of \$0.3 million , or 3.8% , as compared to \$8.9 million for the same period last year. The increase was primarily due to a \$0.5 million unrealized foreign exchange losses related to our cash and cash equivalents denominated in Renminbi or RMB, held by our subsidiaries in China, caused by the recent appreciation of USD against RMB, and a \$0.2 million increase in employee compensation primarily due to increased severance and performance bonus expenses during the three months ended March 31, 2014. The effect of these factors was partially offset by the \$0.2 million decrease in share-based compensation expense primarily due to increased cancellations of stock options and awards during the current quarter and the December 2013 quarter, as well as \$0.2 million decrease in depreciation and amortization expense as a result of certain assets fully amortized in fiscal year of 2013.

Selling, general and administrative expenses were \$25.5 million for the nine months ended March 31, 2014 , a decrease of \$1.0 million , or 3.9% , as compared to \$26.5 million for the same period last year. The decrease was primarily due to a \$0.8 million decrease in share-based compensation expense mainly due to increased cancellations of stock options and awards during the current period, a \$0.6 million decrease in depreciation and amortization expenses due to increased fully depreciated fixed assets in previous quarters and less acquisitions during the current period, a \$0.4 million in recovery of doubtful accounts as a result of continued effort in collection from a service customer in current period, a \$0.2 million decrease in marketing and commission expenses due to reduced sales and marketing activities, partially offset by a \$0.5 million unrealized foreign exchange losses related to our cash and cash equivalents denominated in Renminbi or RMB, held by our subsidiaries in China, caused by the recent appreciation of USD against RMB, and a \$0.3 million of business tax refunds of a subsidiary in China in the same period of prior year.

Impairment of long-lived assets

	Three Months Ended March 31,				Nine Months Ended March 31,			
	2014	2013	Change		2014	2013	Change	
	(in thousands)		(in thousands)	(in percentage)	(in thousands)		(in thousands)	(in percentage)
Impairment of long-lived assets	\$ —	\$ 2,557	\$ (2,557)	(100)%	\$ —	\$ 2,557	\$ (2,557)	(100)%

During the quarter ended March 31, 2013, we determined that the related estimated undiscounted cash flows were not sufficient to recover the carrying value of certain manufacturing machinery and equipment primarily for the packaging of our PC-related products due to the decline of the PC markets. We estimated the fair values of those long-lived assets based on net realizable values of similar machinery and equipment recently transacted by third-party used-machine brokers and recorded an asset impairment charge of approximately \$2.6 million to reduce the related carrying amount to its estimated fair value as of March 31, 2013. We assess potential impairment of tangible and identifiable intangible assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. There were no indications of impairment in the quarter ended March 31, 2014.

Interest income and expenses

Interest income was primarily related to interest earned from cash and cash equivalents. Interest income during the three and nine months ended March 31, 2014 increased as compared to the same periods last year primarily due to the increase in average cash balances.

Interest expense was primarily related to bank borrowings. The decrease in interest expenses during the three and nine months ended March 31, 2014 was primarily due to a decrease in bank borrowings related to the \$20.0 million term loan obtained in May 2012 for our Oregon fab.

Income tax expense

	Three Months Ended March 31,				Nine Months Ended March 31,			
	2014	2013	Change		2014	2013	Change	
	(in thousands)	(in thousands)	(in thousands)	(in percentage)	(in thousands)	(in thousands)	(in thousands)	(in percentage)
Income tax expense (benefit)	\$ 361	\$ (3)	\$ 364	12,133.3%	\$ 2,486	\$ 2,894	\$ (408)	(14.1)%

We recognized income tax expense of approximately \$0.4 million for the three months ended March 31, 2014 and income tax benefit of \$3,000 for the same period last year. The effective tax rate was (12.3)% and 0.0% for the three months ended March 31, 2014 and 2013 , respectively. Our effective tax rate for the three months ended March 31, 2014 was lower than that for same period of last year primarily due to the changes in the mix of earnings in various geographic jurisdictions between the two periods and a recognition of approximately \$1.0 million previously unrecognized tax benefits and related interest accruals following the lapse of the applicable statute of limitations.

We recognized income tax expense of approximately \$2.5 million and \$2.9 million for the nine months ended March 31, 2014 and 2013 , respectively. The effective tax rate was (729.0)% and 209.6% for the nine months ended March 31, 2014 and 2013 , respectively. Our effective tax rate for the nine months ended March 31, 2014 was lower than that for the same period last year primarily due to changes in the mix of earnings in various geographic jurisdictions between the two periods and a recognition of approximately \$1.0 million previously unrecognized tax benefits and related interest accruals following the lapse of the applicable statute of limitations.

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 fuel the growth of our business. Currently, we primarily financed our operations and capital expenditures through funds generated from operations.

On May 11, 2012, we entered into a loan agreement with a financial institution that provides a term loan of \$20.0 million for general purposes and a \$10.0 million non-revolving credit line for the purchase of equipment. Both the term loan and equipment credit line will be fully repayable in May 2015. The borrowings may be made in the form of either Eurodollar loans or Base Rate loans. Eurodollar loans accrue interest based on an adjusted London Interbank Offer Rate ("LIBOR") as defined in the agreement, plus a margin of 1.00% to 1.75%. Base Rate loans accrue interest at the highest of (a) the lender's Prime Rate, (b) the Federal Funds Rate plus 0.5% and (c) the Eurodollar Rate (for a one-month interest period) plus 1%; plus a margin of -0.5% to 0.25%. The applicable margins for both Eurodollar loans and Base Rate loans will vary from time to time in the foregoing ranges based on the cash and cash equivalent balances maintained by us and our subsidiaries with the lender. In May 2013, the equipment credit line expired and there was no outstanding balance. As of March 31, 2014, the outstanding balance of the term loan was \$14.3 million.

The obligations under the term loan are secured by substantially all assets of two of our subsidiaries, including but not limited to, certain real property and related assets located at the Oregon fab. In addition, we and certain of our subsidiaries have agreed to guarantee full repayment and performance of the obligations under the loan agreement. The loan agreement contains customary restrictive covenants and includes certain financial covenants that require us to maintain on a consolidated basis specified financial ratios including total liabilities to tangible net worth, fixed charge coverage and current assets to current liabilities. As of March 31, 2014, we were in compliance with these covenants.

During July 2012, we entered into a loan agreement with the State of Oregon for an amount of \$0.3 million. The loan is required to be used for training new and re-training existing employees of the Oregon fab. The loan bears a compound annual interest rate of 5.0% and is to be repaid in April 2014. The State of Oregon may forgive the outstanding balance under the loan and any unpaid interest if we meet certain conditions primarily relating to hiring targets. Currently the State of Oregon is reviewing the loan to determine whether such conditions are satisfied. We believe that it is more likely than not that we will meet those hiring targets. As of March 31, 2014, the outstanding balance and accrued interest of the loan, included in short term debt, was \$0.3 million.

During the three and nine months ended March 31, 2014, we did not repurchase any shares under our existing \$25 million share repurchase program. Since the inception of the program in 2010, we repurchased an aggregate of 241,770 shares from the open market for a total cost of \$2.3 million, at an average price of \$9.40 per share. On or about May 5, 2014, our Board of Directors approved to reactivate the share repurchase program and authorized management to repurchase our common shares up to the remaining balance of the program, or \$22.7 million. The repurchases may be made from the open market or through negotiated block transactions pursuant to a pre-established 10b5-1 trading plan. The amount and timing of any purchases will depend on a number of factors, including the price and availability of our common share, trading volume and general market conditions.

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. In the long-term, 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, 2014 and June 30, 2013, we had \$110.6 million and \$92.4 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,	
	2014	2013
	(in thousands)	
Net cash provided by operating activities	\$ 26,961	\$ 36,253
Net cash used in investing activities	(6,217)	(14,011)
Net cash used in financing activities	(2,505)	(369)
Effect of exchange rate changes on cash and cash equivalents	(11)	1
Net increase in cash and cash equivalents	\$ 18,228	\$ 21,874

Cash flows from operating activities

Net cash provided by operating activities of \$27.0 million for the nine months ended March 31, 2014 resulted primarily from net loss of \$2.8 million, non-cash charges of \$23.5 million and net change in assets and liabilities providing net cash of \$6.3 million. The non-cash charges of \$23.5 million included (a) \$20.9 million of depreciation and amortization expenses, (b) \$2.2 million of share-based compensation expense and (c) \$1.0 million of net deferred income taxes, partially offset by \$0.4 million on allowance for doubtful account and \$0.1 million of gain on disposal of property and equipment during the period. The net change in assets and liabilities providing net cash of \$6.3 million was primarily due to (i) \$1.5 million decrease in accounts receivable due to the timing of billings and collection of payments, (ii) \$8.5 million decrease in inventories as we reduced building up our inventories, (iii) \$2.1 million increase in accrued and other liabilities, partially offset by (a) \$3.7 million decrease in accounts payable primarily due to decrease in inventory purchase and timing of payment, and (b) \$1.1 million decrease in income taxes payable and (c) \$1.0 million increase in other current and long term assets primarily due to increase in advance payments to vendors.

Net cash provided by operating activities of \$36.3 million for the nine months ended March 31, 2013 resulted primarily from net loss of \$1.5 million, non-cash charges of \$29.1 million and net change in assets and liabilities providing net cash of \$8.7 million. The non-cash charges of \$29.1 million included (a) \$22.3 million of depreciation and amortization expenses, (b) \$3.6 million of share-based compensation expense, (c) \$0.5 million of net deferred income taxes, (d) \$0.1 million of loss on disposal of property and equipment and (e) \$2.6 million of impairment charges of long-lived assets during the quarter ended March 31, 2013. The net change in assets and liabilities providing net cash of \$8.7 million was primarily due to (i) \$9.0 million decrease in accounts receivable due to the timing of billings and collection of payments, (ii) \$5.4 million increase in accounts payable primarily due to increase in inventory purchase and timing of payment, (iii) \$0.6 million decrease in other current and long term assets primarily due to decrease in advance payments to suppliers, and (iv) \$0.6 million increase in income taxes payable; partially offset by (a) \$1.3 million increase in inventories as we built up our inventories for the Oregon fab ramp up and (b) \$5.7 million decrease in accrued and other liabilities primarily related to payment of performance bonuses.

Cash flows from investing activities

Net cash used in investing activities of \$6.2 million for the nine months ended March 31, 2014 was primarily attributable to purchase of property and equipment of \$6.5 million to increase our in-house production capacity, partially offset by \$0.2 million proceeds from sale of property and equipment during the period.

Net cash used in investing activities of \$14.0 million for the nine months ended March 31, 2013 was primarily attributable to purchase of property and equipment to increase our in-house production capacity.

Cash flows from financing activities

Net cash used in financing activities of \$2.5 million for the nine months ended March 31, 2014 was primarily attributable to \$2.9 million of repayment of our borrowings and \$0.9 million in payment of capital lease obligations, partially offset by \$1.3 million of proceeds from exercise of stock options and issuance of shares under the ESPP.

Net cash used in financing activities of \$0.4 million for the nine months ended March 31, 2013 was primarily attributable to \$1.9 million of net repayment to our borrowings and \$0.7 million in payment of capital lease obligations; partially offset by a \$2.3 million of proceeds from exercise of stock options and issuance of shares under the ESPP.

Capital expenditures

Capital expenditures were \$6.5 million and \$14.0 million for the nine months ended March 31, 2014 and 2013 , respectively. Our capital expenditures primarily consisted of the purchases of property and equipment.

Capital expenditures for the nine months ended March 31, 2014 primarily consisted of purchases of equipment for our packaging and testing services, the Oregon fab as well as for upgrading our operational and financial systems. Capital expenditures for the nine months ended March 31, 2013 primarily consisted of purchases of equipment for our packaging and testing services as well as the Oregon fab as we were building the foundation for our wafer manufacturing and new technology development capability under the fab-lite business model following the acquisition of the Oregon fab in January 2012. Such build up of foundation of the Oregon fab, which has been substantially completed, allows us to increase focus on new product development and factory utilization. We expect our total capital expenditures for the fiscal year ending June 30, 2014 to be approximately \$10.0 million.

Commitments

As of March 31, 2014 and June 30, 2013 , we had approximately \$34.9 million and \$25.8 million , respectively, of outstanding purchase commitments primarily for purchases of semiconductor raw materials and wafers.

As of March 31, 2014 and June 30, 2013 , we had approximately \$3.0 million and \$0.4 million , respectively, of capital commitments for the purchase of property and equipment.

Off-Balance Sheet Arrangements

As of March 31, 2014 , we had no material off-balance sheet arrangements as defined in Regulation S-K 303(a)(4)(ii) arrangements.

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, 2013, filed with the SEC on August 30, 2013.

ITEM 4. CONTROLS AND PROCEDURES

Management's Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and interim 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 interim Chief Financial Officer concluded that our disclosure controls and procedures as of March 31, 2014 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 interim 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, 2014 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

Item 1A of Part I of our Annual Report on Form 10-K for the year ended June 30, 2013, filed with the SEC on August 30, 2013, contains risk factors identified by the Company, which was updated subsequently in our Quarterly Reports on Form 10-Q for the fiscal quarters ended September 30, 2013 and December 31, 2013. 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.

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

During the three months ended March 31, 2014, we made no sale of unregistered securities and no repurchase of shares under the \$25.0 million share repurchase program authorized by our Board of Directors on October 22, 2010. On or about May 5, 2014, our Board of Directors approved to reactivate the share repurchase program with a remaining balance of \$22.7 million.

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	Consulting Agreement with Mary L. Dotz dated as of February 3, 2014.
10.2	Amendment to Automatic Grant Program for Non-Employee Directors under the 2009 Share Option/Share Issuance Plan.
10.3	Form of Restricted Share Unit Agreement.
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

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 9, 2014

ALPHA AND OMEGA SEMICONDUCTOR LIMITED

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

ALPHA AND OMEGA SEMICONDUCTOR INCORPORATED**CONSULTING AGREEMENT**

This Consulting Agreement (the "Agreement") is entered into on February 3, 2014 by and between **Alpha and Omega Semiconductor Limited**, a Bermuda exempted company, and its affiliates (together, the "Company"), and **Mary Dotz** ("Consultant").

1. SERVICES.

1.1 The Company hereby retains Consultant and Consultant agrees to perform for the Company the services described in Exhibit A (the "Services") for a period of six months after January 13, 2014. The Company may amend Exhibit A at any time to reflect the business, development and/or production needs of the Company. Consultant will keep the Company advised as to Consultant's progress in performing the Services and will, as requested by the Company from time to time, promptly prepare written notes and/or reports regarding such progress.

1.2 The Company and Consultant agree that the sole and exclusive compensation for the Services shall be set forth in Exhibit B.

2. CONFIDENTIALITY.

2.1 "Confidential Information" means any proprietary information, technical data, trade secrets or know-how, including research, product ideas, product plans, products, services, customers, customer lists, markets, software, developments, inventions, processes, formulas, technology, designs, drawings, hardware configuration information, marketing, finances or other business information disclosed by the Company, either directly or indirectly in writing, orally or by drawings or inspection of parts or equipment, provided that such information is designated as confidential at the time of disclosure. Confidential Information does not include information which (i) has become publicly known and made generally available through no wrongful act or non-act of Consultant, (ii) has been rightfully received by Consultant from a third party who is authorized to make such disclosure, or (iii) is known by Consultant at the time of disclosure without any obligation of confidentiality to Company.

2.2 Consultant recognizes and acknowledges that in the course of performing the Services, Consultant will have access to Confidential Information. Consultant will not use Confidential Information for any purpose whatsoever other than the performance of the Services on behalf of the Company or disclose any Confidential Information to any third party, including but not limited to insider trading. Confidential

Information shall remain the sole property of the Company. Consultant further agrees to take all reasonable precautions to prevent any unauthorized disclosure of Confidential Information. Without the Company's prior written approval, Consultant will not directly or indirectly disclose to anyone the existence of this Agreement or the fact that Consultant has this arrangement with the Company. The obligations of this Section 2.2 will terminate one year after the term of this Agreement.

2.3 Consultant will not, during the term of this Agreement, (i) improperly use or disclose any proprietary information or trade secrets of any former or current employer or other person or entity which Consultant is obligated to keep confidential; or (ii) improperly use work time or facilities of the current employer to do any work related to the performance of the Services.

2.4 Consultant recognizes that the Company may from time to time receive confidential or proprietary information from third parties. Consultant is obligated to the Company and such third parties, to hold all such confidential or proprietary information in the strictest confidence, and not to disclose it to any person, firm or corporation or to use it except as necessary in carrying out the Services for the Company consistent with the Company's agreement with such third party. Company will not, however, disclose such third party information to Consultant without Consultant's prior approval.

2.5 Upon the termination of this Agreement, or upon Company's earlier request, Consultant will promptly deliver to the Company all of the Company's property and Confidential Information in tangible form in Consultant's possession or control.

3. INVENTION ASSIGNMENT AND OWNERSHIP.

3.1 Consultant agrees that all copyrightable works, notes, records, drawings, designs, compositions, inventions (whether patentable or not), improvements, developments, discoveries and trade secrets (collectively, the "Works") conceived, made or discovered by Consultant, either solely or in collaboration with others and either on or off the Company's premises, in the course of performing the Services which relate in any manner to the business of the Company that Consultant may become associated with in performing the Services hereunder, are the sole property of the Company. Any of the Works that constitute copyrightable subject matter shall be considered "works made for hire" as that term is defined in the United States Copyright Act. Consultant further hereby assigns fully to the Company all right, title and interest in the Works and any copyrights, patents, mask work rights or other intellectual property rights relating to the Works.

3.2 Consultant agrees to assist Company or its designee, at the Company's expense, to secure the Company's rights in the Works and any copyrights, patents, mask work rights or other intellectual property rights relating to the Works, in any and all countries as elected by the Company or its designee. Consultant's obligations under this Section may

include disclosing to the Company all pertinent information and data with respect to the Works, executing all applications, specifications, oaths, assignments and all other instruments that the Company deems necessary in order to obtain such rights and to assign to the Company, its successors, assigns and nominees the sole and exclusive rights, title and interest in and to the Works, and any copyrights, patents, mask work rights or other intellectual property rights relating to the Works. In the event that Consultant fails to execute any such instruments within a reasonable time, Consultant hereby irrevocably appoints the Company and its duly authorized officers and agents as Consultant's agent and attorney in fact to execute any such instruments and take all other action necessary to effectuate the intent of this Section.

3.3 Consultant hereby attaches, as Exhibit C hereto, a list describing all inventions, original works of authorship, developments, improvements, trademarks, discoveries, formulae, trade secret and proprietary information that were made by Consultant prior to his or her retention by the Company. Except as set forth on Exhibit C, if in the course of performing the Services, Consultant incorporates into any of the Works developed hereunder any invention, improvement, development, concept, discovery or other proprietary information owned by Consultant or in which Consultant has an interest, the Company is hereby granted a nonexclusive, royalty-free, fully paid-up, irrevocable, worldwide, perpetual license to make, have made, modify, use and sell such items as part of or in connection with the Works.

3.4 Even though Consultant is not an employee, Consultant understands that the provisions hereof requiring invention assignment to the Company may not apply to an invention which qualifies fully under the provisions of California Labor Code Section 2870, attached hereto as Exhibit D. However, Consultant shall promptly advise the Company in writing of any inventions that Consultant reasonably believes meet the criteria in the aforementioned Labor Code Section.

4. CONFLICTING OBLIGATIONS.

Consultant represents and certifies that Consultant has no outstanding agreement or obligation that is in conflict with any of the provisions of this Agreement and Consultant will not enter into any such conflicting agreement during the term of this Agreement. Consultant agrees to diligently adhere to the Conflict of Interest Guidelines, attached hereto as Exhibit E. Consultant further agrees not to engage in any other consulting or business activity directly related to the business in which the Company is now involved or becomes involved during the term of this Agreement, if such engagement would negatively impact the Company in any manner.

5. TERM AND TERMINATION.

5.1 The term of this Agreement will commence on the date of this agreement, and will continue until July 13, 2014 unless extended by mutual written agreement, and unless this Agreement is terminated earlier pursuant to Sec. 5.2.

5.2 The Company may terminate this Agreement at any time during the term of this Agreement by giving written notice to Consultant. Consultant may terminate this Agreement by written notice in the event of a material breach by Company that remains uncured for thirty (30) days after a written notice to cure.

5.3 At the end of the term or upon termination of this Agreement, all rights and duties of the parties toward each other shall cease to exist, provided that:

(a) The Company shall be obligated to pay, within ten (10) days after the term or termination, all amounts owing to Consultant for Services performed and related expenses, if any, up to the end of the term or the date of termination; and

(b) Sections 2 (Confidentiality), 3 (Ownership), 5.3 (Survival), and 6-12 (General Provisions) shall survive the term or termination of this Agreement.

6. NOTICES.

Any notices given under this Agreement shall be in writing, addressed as shown below or at such other address specified by written notice. Notices shall be deemed given upon delivery if personally delivered, three days after deposited in the United States mail, postage prepaid, registered or certified mail, return receipt requested or within forty-eight (48) hours after delivery to an overnight courier service.

7. ASSIGNMENT; SUCCESSORS AND ASSIGNS.

Neither this Agreement nor any rights or obligations under this Agreement may be assigned or transferred by Consultant without the express written consent of the Company. This Agreement shall inure to the benefit of successors and assigns of the Company, and shall be binding upon the heirs, legal representatives, successors and assigns of Consultant.

8. INDEPENDENT CONTRACTOR.

Consultant is an independent contractor. Nothing in this Agreement shall be construed to constitute Consultant as an agent, employee or representative of the Company. Consultant shall not be entitled to any Company employment rights or benefits. Consultant shall bear all expenses associated with performing the Services except as expressly provided on Exhibit B of this Agreement. Consultant is obligated to report as income all compensation received by Consultant pursuant to this Agreement, and to pay all self-employment and other taxes.

9. ARBITRATION; EQUITABLE RELIEF.

9.1 Except as provided in Section 9.2 below, the Company and Consultant agree that any dispute or controversy arising out of or relating to this Agreement shall be settled by binding arbitration to be held in the Santa Clara County, California, in accordance with the procedural rules then in effect of the American Arbitration Association. The arbitrator may grant injunctions or other relief in such dispute or controversy. The Company and Consultant shall each pay one-half of the costs and expenses of such arbitration, and each shall separately pay its respective counsel fees and expenses.

9.2 Consultant acknowledges that any breach of Sections 2, 3 and 4 will give rise to irreparable harm to the Company, and that it would be impossible or inadequate to measure the Company's damages from any such breach. Accordingly, Consultant agrees that, if Consultant breaches Section 2, 3 or 4, the Company will have the right to obtain from any court of competent jurisdiction an injunction restraining such breach or threatened breach and specific performance of any such provision. Consultant further agrees that no bond or other security shall be required in obtaining such equitable relief and that Consultant shall submit to the jurisdiction of such court.

10. GOVERNING LAW.

This Agreement shall be governed by the laws of the State of California without reference to its conflict of laws provisions.

11. SEVERABILITY.

If any Section of this Agreement is found by competent authority to be invalid, illegal or unenforceable in any respect for any reason, the validity, legality and enforceability of any such Section in every other respect and the remainder of this Agreement shall continue in effect so long as the Agreement still expresses the intent of the parties. If the intent of the parties cannot be preserved, this Agreement shall be either renegotiated or terminated.

12. ENTIRE AGREEMENT.

Except for Exhibit A, which may be amended by the Company in accordance with Section 1, this Agreement together with its exhibits is the entire agreement of the parties and supersedes any prior agreements between them with respect to the subject matter of this Agreement.

13. LIMITATION OF LIABILITY

Neither party shall be liable to the other party for any indirect, special or consequential damages, or for liability of any kind in excess of the amounts that become due and owing to Consultant under this Agreement, which damages arise out of or relate to this Agreement.

IN WITNESS WHEREOF, the Company and Consultant have caused this Agreement to be signed and delivered, all as of the date first above written.

CONSULTANT ALPHA AND OMEGA SEMICONDUCTOR LIMITED

By: ____ By: ____

Name: ____ Name: ____

Title: ____

Address: ____

EXHIBIT A

SERVICES

Consultant will perform such financial consulting services as are agreed to from time to time by Consultant and the Company's representative, Yifan Liang.

EXHIBIT B

COMPENSATION

1. Services. Consultant shall perform the Services described in Exhibit A and as shall further be described to Consultant by the contact person named on Exhibit A, and such contact person shall serve as Consultant's supervisor with regard to the Services and the Works.
2. Compensation. As sole and exclusive consideration for all services to be rendered and performed under the Agreement and for assigning the rights to the Company set forth in Section 3 of the Agreement, Company shall pay Consultant at the rate of \$375 per hour.
3. Expenses. The Company shall reimburse Consultant for all reasonable travel and living expenses incurred by Consultant in performing the Services pursuant to this Agreement, provided Consultant receives prior written consent from Company Contact prior to incurring such expenses.

Consultant shall submit invoices for expenses in a form prescribed by the Company. Such invoices shall be approved by the contact person named on Exhibit A. An invoice shall be rendered monthly promptly after the end of each calendar month in which Consultant has rendered services, and shall be payable in full within 10 days after receipt by Company of such an invoice from Consultant.

EXHIBIT C

LIST OF PRIOR INVENTIONS AND ORIGINAL WORKS OF AUTHORSHIP

Title

Date

**Identifying Number
or Brief Description**

_____ No inventions or improvements

_____ Additional sheets attached

Signature of Consultant: _____

Printed Name of Consultant: _____

Date: _____

EXHIBIT D

CALIFORNIA LABOR CODE SECTION 2870

EMPLOYMENT AGREEMENTS; ASSIGNMENT OF RIGHTS

“(a) Any provision in an employment agreement which provides that an employee shall assign, or offer to assign, any of his or her rights in an invention to his or her employer shall not apply to an invention that the employee developed entirely on his or her own time without using the employer’s equipment, supplies, facilities, or trade secret information except for those inventions that either:

- (1) Relate at the time of conception or reduction to practice of the invention to the employer’s business, or actual or demonstrably anticipated research or development of the employer.
- (2) Result from any work performed by the employee for the employer.

(b) To the extent a provision in an employment agreement purports to require an employee to assign an invention otherwise excluded from being required to be assigned under subdivision (a), the provision is against the public policy of this state and is unenforceable.”

EXHIBIT E

CONFLICT OF INTEREST GUIDELINES

It is the policy of Alpha and Omega Semiconductor to conduct its affairs in strict compliance with the letter and spirit of the law and to adhere to the highest principles of business ethics. Accordingly, all officers, employees and independent contractors must avoid activities that are in conflict, or give the appearance of being in conflict, with these principles and with the interests of the Company. The following are potentially compromising situations that must be avoided. Any exceptions must be reported to the CEO of the Company and written approval for continuation must be obtained from the CEO.

1. Revealing Confidential Information to outsiders or misusing Confidential Information. Unauthorized divulging of Confidential Information is a violation of this policy whether or not for personal gain and whether or not harm to the Company is intended.
 2. Accepting or offering substantial gifts, excessive entertainment, favors or payments that may be deemed to constitute undue influence or otherwise be improper or embarrassing to the Company.
 3. Participating in civic or professional organizations that might involve divulging Confidential Information.
 4. Initiating or approving personnel actions affecting reward or punishment of employees or applicants where there is a family relationship or is or appears to be a personal or social involvement.
 5. Initiating, participating or approving any form of personal, social or sexual harassment of employees or other consultants of the Company.
 6. Investing or holding outside directorships in suppliers, customers or competing companies, including financial speculation, where such investment or directorship might influence in any manner a decision or course of action of the Company.
 7. Borrowing from or lending to employees, customers or suppliers of the Company.
 8. Acquiring real estate of interest to the Company.
 9. Improperly using or disclosing to the Company any proprietary information or trade secrets of any former or concurrent employer or other person or entity with whom obligations of confidentiality exist.
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10. Discussing unlawfully or without proper authorization prices, costs, customers, suppliers, sales or markets of the Company with competing companies or their employees.
11. Making any unlawful agreements with distributors with respect to prices.
12. Improperly using or authorizing the use of any invention that is the subject of a patent claim of any other person or entity.
13. Engaging in any conduct that is not in the best interest of the Company.

Each officer, employee and independent contractor must take every necessary action to ensure compliance with these guidelines and to bring problem areas to the attention of the higher management of the Company for review. Violations of this conflict of interest policy may result in immediate discharge and/or termination of the business relationship.

ALPHA AND OMEGA SEMICONDUCTOR LIMITED

2009 SHARE OPTION/SHARE ISSUANCE PLAN

(AS AMENDED AND RESTATED ON March 24, 2014)

ARTICLE 1

GENERAL PROVISIONS

I. PURPOSE OF THE PLAN

This 2009 Share Option/Share Issuance Plan is intended to promote the interests of Alpha and Omega Semiconductor Limited, a company incorporated and existing under the laws of the Islands of Bermuda, by providing eligible persons in the Company's employ or service with the opportunity to acquire a proprietary interest, or otherwise increase their proprietary interest, in the Company as an incentive for them to continue in such employ or service.

The Plan serves as the successor to the Company's 2000 Share Plan (the "Predecessor Plan"), and no further awards shall be granted under the Predecessor Plan after the Plan Effective Date. All awards outstanding under the Predecessor Plan on the Plan Effective Date shall continue to be governed solely by the terms of the documents evidencing such award, and no provision of the Plan shall be deemed to affect or otherwise modify the rights or obligations of the holders of such awards.

This amendment and restatement of the Plan shall be effective on the Underwriting Date.

Capitalized terms herein shall have the meanings assigned to such terms in the attached Appendix.

II. STRUCTURE OF THE PLAN

A. The Plan shall be divided into three (3) separate equity programs:

(i) the Discretionary Grant Program under which eligible persons may, at the discretion of the Plan Administrator, be granted options to purchase Common Shares and share appreciation rights tied to the value of such Common Shares,

(ii) the Share Issuance Program under which eligible persons may, at the discretion of the Plan Administrator, be issued Common Shares directly, either through the immediate purchase of such shares or as a bonus for services rendered the Company (or any Parent or Subsidiary) or pursuant to restricted share units or other share

right awards which vest upon the completion of a designated service period or the attainment of pre-established performance milestones, and

(iii) the Automatic Grant Program under which eligible non-employee Board members shall automatically receive awards at designated intervals over their period of continued Board service.

B. The provisions of Articles One and Five shall apply to all equity programs under the Plan and shall accordingly govern the interests of all persons under the Plan.

III. ADMINISTRATION OF THE PLAN

A. The Primary Committee shall have sole and exclusive authority to administer the Discretionary Grant and Stock Issuance Programs with respect to executive officers and non-employee Board members. However, any awards for members of the Primary Committee (other than pursuant to the Automatic Grant Program) must be authorized by a disinterested majority of the Board. Administration of the Discretionary Grant and Stock Issuance Programs with respect to all other persons eligible to participate in those programs may, at the Board's discretion, be vested in the Primary Committee or a Secondary Committee, or the Board may retain the power to administer those programs with respect to all such persons. Members of the Primary Committee or any Secondary Committee shall serve for such period of time as the Board may determine and shall be subject to removal by the Board at any time. The Board may also at any time terminate the functions of any Secondary Committee and reassume all powers and authority previously delegated to such committee.

B. Each Plan Administrator shall, within the scope of its administrative functions under the Plan, have full power and authority (subject to the provisions of the Plan) to establish such rules and regulations as it may deem appropriate for proper administration of the Discretionary Grant and Stock Issuance Programs and to make such determinations under, and issue such interpretations of, the provisions of those programs and any outstanding awards thereunder as it may deem necessary or advisable. Decisions of the Plan Administrator within the scope of its administrative functions under the Plan shall be final and binding on all parties who have an interest in the Discretionary Grant and Stock Issuance Programs under its jurisdiction or any award thereunder.

C. Service as a Plan Administrator by the members of the Primary Committee or the Secondary Committee shall constitute service as Board members, and the members of each such committee shall accordingly be entitled to full indemnification and reimbursement as Board members for their service on such committee. No member of the Primary Committee or the Secondary Committee shall be liable for any act or omission made in good faith with respect to the Plan or any award thereunder.

D. Administration of the Automatic Grant Program shall be self-executing in accordance with the terms of that program, and no Plan Administrator shall exercise any discretionary functions with respect to any awards made under that program.

IV. ELIGIBILITY

A. The persons eligible to participate in the Plan are as follows:

- (i) Employees,
 - (ii) non-employee members of the Board or the non-employee members of the board of directors of any Parent or Subsidiary,
- and
- (iii) consultants and other independent advisors who provide services to the Company (or any Parent or Subsidiary).

B. The Plan Administrator shall have full authority to determine, (i) with respect to the awards of options or share appreciation rights under the Discretionary Grant Program, which eligible persons are to receive such awards, the time or times when those awards are to be made, the number of shares to be covered by each such award, the exercise or vesting schedule (if any) applicable to the award, the maximum term for which such award is to remain outstanding and the status of a granted option as either an Incentive Option or a Non-Statutory Option and, and (ii) with respect to share issuances or other share-based awards under the Share Issuance Program, which eligible persons are to receive such issuances or awards, the time or times when those issuances or awards are to be made, the number of shares subject to such issuance or award, the applicable vesting schedule and the cash consideration (if any) to be paid by the Participant for such shares.

C. The Plan Administrator shall have the absolute discretion either to grant options or share appreciation rights in accordance with the Discretionary Grant Program or to effect share issuances and other share-based awards in accordance with the Share Issuance Program.

D. The individuals who shall be eligible to participate in the Automatic Grant Program shall be limited to (i) those individuals who first become non-employee Board members on or after the Underwriting Date, whether through appointment by the Board or election by the Company's shareholders, and (ii) those individuals who continue to serve as non-employee Board members on or after the Underwriting Date. A non-employee Board member who has previously been in the employ of the Company (or any Parent or Subsidiary) shall not be eligible to receive a grant under the Automatic Grant Program at the time he or she first becomes a non-employee Board member, but shall be eligible to receive periodic grants under the Automatic Grant Program while he or she continues to serve as a non-employee Board member.

V. SHARES SUBJECT TO THE PLAN

A. The shares issuable under the Plan shall be authorized but unissued or reacquired Common Shares. The maximum number of Common Shares which may initially be issued over the term of the Plan shall not exceed one million one hundred and fifty thousand (1,150,000) shares. Such reserve consists of (i) the number of Common Shares remaining available for issuance, as of the Plan Effective Date, under the Predecessor Plan as last approved by the Company's shareholders (excluding shares subject to outstanding awards under the Predecessor Plan), plus (ii) an additional increase of nine hundred ten thousand five hundred and ninety (910,590)

shares. To the extent any options outstanding under the Predecessor Plan on the Plan Effective Date expire or terminate unexercised or without the issuance of shares thereunder, the number of Common Shares subject to those expired or terminated options at the time of expiration or termination shall be added to the share reserve under this Plan and shall accordingly be available for issuance hereunder, up to a maximum of an additional one hundred thousand (100,000) shares.

B. The number of Common Shares available for issuance under the Plan shall automatically increase on the first trading day of January each calendar year during the term of the Plan, beginning with the calendar year 2011, by an amount equal to three percent (3%) of the total number of Common Shares outstanding on the last trading day in December of the immediately preceding calendar year, but in no event shall such annual increase exceed seven hundred and fifty thousand (750,000) shares.

C. No one person participating in the Plan may receive share options, stand-alone share appreciation rights, direct share issuances (whether vested or unvested) or other share-based awards (whether in the form of restricted share units or other share-right awards) for more than two hundred and fifty thousand (250,000) Common Shares in the aggregate per calendar year; provided, however, that the limit shall be four hundred thousand (400,000) Common Shares for the calendar year in which the individual is initially hired.

D. The maximum number of Common Shares that may be issued pursuant to Incentive Options granted under the Plan shall not exceed one million one hundred and fifty thousand (1,150,000) shares increased, on the first trading day of January each year beginning with the calendar year 2011, by the number of shares by which the share reserve is to automatically increase on such date up to a maximum of seven hundred and fifty thousand (750,000) shares.

E. Common Shares subject to outstanding options, share appreciation rights, restricted share units or other share right awards shall be available for subsequent issuance under the Plan to the extent (i) those options, rights, units or awards, expire, terminate or are cancelled for any reason prior to the issuance of the underlying Common Shares or (ii) the options are cancelled in accordance with the cancellation-regrant provisions of Article Two. Unvested shares issued under the Plan and subsequently forfeited or repurchased by the Company, at a price per share not greater than the option exercise or direct issue price paid per share, pursuant to the Company's repurchase rights under the Plan shall be added back to the number of Common Shares reserved for issuance under the Plan and shall accordingly be available for reissuance through one or more subsequent awards under the Plan. Should the exercise price of an option under the Plan be paid with Common Shares, then the authorized reserve of Common Shares under the Plan shall be reduced only by the net number of shares issued under the exercised option and not by the gross number of shares for which that option is exercised. Upon the exercise of any share appreciation right under the Plan, the share reserve shall be reduced only by the net number of shares actually issued by the Company upon such exercise and not by the gross number of shares as to which such right is exercised. If Common Shares otherwise issuable under the Plan are withheld by the Company in satisfaction of the withholding taxes incurred in connection with the issuance, vesting or exercise of an award under the Plan or the issuance of Common Shares thereunder, then the number of Common Shares

available for issuance under the Plan shall be reduced by the net number of shares issued, vested or exercised under such award, calculated in each instance after such share withholding.

F. In the event of any of the following transactions affecting the outstanding Common Shares as a class without the Company's receipt of consideration: any share split, share dividend, spin-off transaction, extraordinary distribution (whether in cash, securities or other property), recapitalization, combination of shares, exchange of shares or other similar transaction affecting the outstanding Common Shares without the Company's receipt of consideration or in the event of a substantial reduction to the value of the outstanding Common Shares by reason of a spin-off transaction or extraordinary distribution, then equitable adjustments shall be made to (i) the maximum number and/or class of securities issuable under the Plan, (ii) the maximum number and/or class of securities by which the share reserve under the Plan may increase by reason of the expiration or termination of options under the Predecessor Plan, (iii) the number and/or class of securities by which the share reserve is to increase each calendar year pursuant to the automatic share increase provisions of the Plan, (iv) the number and/or class of securities that may be issued pursuant to Incentive Options granted under the Plan, (v) the maximum number and/or class of securities for which awards may subsequently be made to new and continuing non-employee Board members under the Automatic Grant Program, (vi) the number and/or class of securities and the exercise or base price per share in effect under each outstanding option or share appreciation right, (vii) the number and/or class of securities subject to each outstanding restricted share unit or other share right award and the cash consideration (if any) payable per share and (viii) the number and/or class of securities for which any one person may be granted options, stand-alone share appreciation rights, direct share issuances and other share-based awards under the Plan per calendar year. The adjustments shall be made by the Plan Administrator in such manner as the Plan Administrator deems appropriate, and those adjustments shall be final, binding and conclusive. In no event shall any such adjustments be made in connection with the conversion of one or more outstanding securities of the Company.

ARTICLE 2

DISCRETIONARY GRANT PROGRAM

I. OPTION TERMS

Each option shall be evidenced by one or more documents in the form approved by the Plan Administrator; provided, however, that each such document shall comply with the terms specified below. Each document evidencing an Incentive Option shall, in addition, be subject to the provisions of the Plan applicable to such options.

C. Exercise Price.

2. The exercise price per share shall be fixed by the Plan Administrator but shall not be less than one hundred percent (100%) of the Fair Market Value per Common Share on the option grant date.

3. The exercise price shall become immediately due upon exercise of the option and shall, subject to the provisions of Section I of Article Five and the documents evidencing the option, be payable in one or more of the forms specified below:

(i) cash or check made payable to the Company,

(ii) Common Shares (whether delivered in the form of actual share certificates or through attestation of ownership) held for the period (if any) necessary to avoid a charge to the Company's earnings for financial reporting purposes and valued at Fair Market Value on the Exercise Date, or

(iii) to the extent the option is exercised for vested shares, through a special sale and remittance procedure pursuant to which the Optionee shall concurrently provide irrevocable instructions (A) to a brokerage firm (reasonably satisfactory to the Company for purposes of administering such procedure in compliance with any applicable pre-clearance or pre-notification requirements) to effect the immediate sale of the purchased shares and remit to the Company, out of the sale proceeds available on the settlement date, sufficient funds to cover the aggregate exercise price payable for the purchased shares plus all applicable Taxes required to be withheld by the Company by reason of such exercise and (B) to the Company to deliver the certificates for the purchased shares directly to such brokerage firm on the settlement date in order to complete the sale.

Except to the extent such sale and remittance procedure is utilized, payment of the exercise price for the purchased shares must be made on the Exercise Date.

D. **Exercise and Term of Options**. Each option shall be exercisable at such time or times, during such period and for such number of shares as shall be determined by the Plan Administrator and set forth in the documents evidencing the option grant. However, no option shall have a term in excess of ten (10) years measured from the option grant date.

E. **Effect of Termination of Service.**

1. The following provisions shall govern the exercise of any options held by the Optionee at the time of cessation of Service or death:

(iv) Any option outstanding at the time of the Optionee's cessation of Service for any reason shall remain exercisable for such period of time thereafter as shall be determined by the Plan Administrator and set forth in the documents evidencing the option, but no such option shall be exercisable after the expiration of the option term.

(v) Any option held by the Optionee at the time of the Optionee's death and exercisable in whole or in part at that time may be subsequently exercised by the personal representative of the Optionee's estate or by the person or persons to whom the option is transferred pursuant to the Optionee's will or the laws of inheritance or by the Optionee's designated beneficiary or beneficiaries of that option.

(vi) Should the Optionee's Service be terminated for Misconduct or should the Optionee otherwise engage in Misconduct while holding one or more outstanding options granted under this Article Two, then all of those options shall terminate immediately and cease to be outstanding.

(vii) Under no circumstances, however, shall any such option be exercisable after the specified expiration of the option term.

(viii) During the applicable post-Service exercise period, the option may not be exercised in the aggregate for more than the number of vested shares for which the option is exercisable on the date of the Optionee's cessation of Service. No additional shares shall vest under the option following the Optionee's cessation of Service, except to the extent (if any) specifically authorized by the Plan Administrator in its sole discretion pursuant to an express written agreement with the Optionee. Upon the expiration of the applicable exercise period or (if earlier) upon the expiration of the option term, the option shall terminate and cease to be outstanding.

2. The Plan Administrator shall have the discretion, exercisable either at the time an option is granted or at any time while the option remains outstanding, to:

(i) extend the period of time for which the option is to remain exercisable following the Optionee's cessation of Service or death from the limited period otherwise in effect for that option to such greater period of time as the Plan Administrator shall deem appropriate, but in no event beyond the expiration of the option term, and/or

(ii) permit the option to be exercised, during the applicable post-Service exercise period, not only with respect to the number of vested Common Shares for which such option is exercisable at the time of the Optionee's cessation of Service but also with respect to one or more additional installments in which the Optionee would have vested under the option had the Optionee continued in Service.

F. **Shareholder Rights**. The holder of an option shall have no shareholder rights with respect to the shares subject to the option until such person shall have exercised the option, paid the exercise price and become the recordholder of the purchased shares.

G. **Unvested Shares**. The Plan Administrator shall have the discretion to grant options which are exercisable for unvested Common Shares. Should the Optionee cease Service while holding such unvested shares, the Company shall have the right to repurchase any or all of those unvested shares at a price per share equal to the lower of (i) the exercise price paid per share or (ii) the Fair Market Value per Common Share at the time of Optionee's cessation of Service. The terms upon which such repurchase right shall be exercisable (including the period and procedure for exercise and the appropriate vesting schedule for the purchased shares) shall be established by the Plan Administrator and set forth in the document evidencing such repurchase right.

H. **Limited Transferability of Options**.

1. An Incentive Stock Option shall be exercisable only by the Optionee during his or her lifetime, and such Incentive Stock Option, together with the Common Shares subject to that option during the period prior to exercise, shall not be assignable or transferable other than by will or by the laws of inheritance following the Optionee's death.

2. A Non-Statutory Option, together with the Common Shares subject to that option during the period prior to exercise, shall be subject to the same transfer restrictions as set forth in subparagraph 1 above, except that a Non-Statutory Option, together with the underlying unexercised Common Shares, may to the extent permitted by the Plan Administrator be assigned in whole or in part during the Optionee's lifetime by gift or pursuant to a domestic relations order to one or more of the Optionee's Family Members or to a trust established exclusively for the Optionee and/or one or more such Family Members. The assigned portion may only be exercised by the person or persons who acquire a proprietary interest in the Non-Statutory Option pursuant to the assignment. The terms applicable to the assigned portion shall be the same as those in effect for the option immediately prior to such assignment and shall be set forth in such documents issued to the assignee as the Plan Administrator may deem appropriate.

3. Notwithstanding subparagraphs 1 and 2 above, the Optionee may also, to the extent permitted by the Plan Administrator, designate one or more Family Members as the beneficiary or beneficiaries of his or her outstanding options under the Plan, and those options shall, in accordance with such designation, automatically be transferred to such beneficiary or beneficiaries upon the Optionee's death while holding those options. Such beneficiary or beneficiaries shall take the transferred options subject to all the terms and conditions of the applicable agreement evidencing each such transferred option, including (without limitation) the limited time period during which the option may be exercised following the Optionee's death.

II. INCENTIVE OPTIONS

The terms specified below shall be applicable to all Incentive Options. Except as modified by the provisions of this Section II, all the provisions of Articles One, Two and Four shall

be applicable to Incentive Options. Options which are specifically designated as Non-Statutory Options shall not be subject to the terms of this Section II.

E. **Eligibility**. Incentive Options may only be granted to Employees.

F. **Dollar Limitation**. The aggregate Fair Market Value of the Common Shares (determined as of the respective date or dates of grant) for which one or more options granted to any Employee under the Plan (or any other option plan of the Company or any Parent or Subsidiary) may for the first time become exercisable as Incentive Options during any one (1) calendar year shall not exceed the sum of One Hundred Thousand Dollars (\$100,000). To the extent the Employee holds two (2) or more such options which become exercisable for the first time in the same calendar year, the foregoing limitation on the exercisability of such options as Incentive Options shall be applied on the basis of the order in which such options are granted, except to the extent otherwise provided under applicable law or regulation.

G. **10% Shareholder**. If any Employee to whom an Incentive Option is granted is a 10% Shareholder, then the option term shall not exceed five (5) years measured from the option grant date, and the exercise price per share shall not be less than one hundred ten percent (110%) of the Fair Market Value per Common Share on the option grant date.

III. SHARE APPRECIATION RIGHTS

E. **Authority**. The Plan Administrator shall have full power and authority, exercisable in its sole discretion, to grant share appreciation rights in accordance with this Section III to selected individuals eligible to participate in the Discretionary Grant Program.

F. **Types**. Two types of share appreciation rights shall be authorized for issuance under this Section III: (i) tandem share appreciation rights ("Tandem Rights") and (ii) Stand-Alone share appreciation rights ("Stand-Alone Rights").

G. **Tandem Rights**. The following terms and conditions shall govern the grant and exercise of Tandem Rights.

1. One or more Optionees may be granted a Tandem Right, exercisable upon such terms and conditions as the Plan Administrator may establish, to elect between the exercise of the underlying option for Common Shares or the surrender of that option in exchange for a distribution from the Company in an amount equal to the excess of (i) the Fair Market Value (on the option surrender date) of the number of shares in which the Optionee is at the time vested under the surrendered option (or surrendered portion thereof) over (ii) the aggregate exercise price payable for such vested shares.

2. Any distribution to which the Optionee becomes entitled upon the exercise of a Tandem Right may be made in (i) Common Shares valued at Fair Market Value on the option surrender date, (ii) cash or (iii) a combination of cash and Common Shares, as the Plan Administrator shall determine in its sole discretion. Unless otherwise specified in the applicable award agreement, the distribution shall be made in Common Shares.

H. **Stand-Alone Rights**. The following terms and conditions shall govern the grant and exercise of Stand-Alone Rights:

1. One or more individuals may be granted a Stand-Alone Right not tied to any underlying option under this Discretionary Grant Program. The Stand-Alone Right shall relate to a specified number of Common Shares and shall be exercisable upon such terms and conditions as the Plan Administrator may establish. In no event, however, may the Stand-Alone Right have a maximum term in excess of ten (10) years measured from the grant date.

2. Upon exercise of the Stand-Alone Right, the holder shall be entitled to receive a distribution from the Company in an amount equal to the excess of (i) the aggregate Fair Market Value (on the exercise date) of the Common Shares underlying the exercised right over (ii) the aggregate base price in effect for those shares.

3. The number of Common Shares underlying each Stand-Alone Right and the base price in effect for those shares shall be determined by the Plan Administrator in its sole discretion at the time the Stand-Alone Right is granted. In no event, however, may the base price per share be less than the Fair Market Value per Common Share on the grant date.

4. Stand-Alone Rights shall be subject to the same transferability restrictions applicable to Non-Statutory Options under Section I.F of this Article Two. In addition, one or more beneficiaries may be designated for an outstanding Stand-Alone Right in accordance with substantially the same terms and provisions as set forth in Section I.F of this Article Two.

5. The distribution with respect to an exercised Stand-Alone Right may be made in (i) Common Shares valued at Fair Market Value on the exercise date, (ii) cash or (iii) a combination of cash and Common Shares, as the Plan Administrator shall determine in its sole discretion. Unless otherwise specified in the applicable Award Agreement, the distribution shall be made in Common Shares.

6. The holder of a Stand-Alone Right shall have no shareholder rights with respect to the shares subject to the Stand-Alone Right unless and until such person shall have exercised the Stand-Alone Right and become a holder of record of the Common Shares issued upon the exercise of such Stand-Alone Right.

I. **Post-Service Exercise**. The provisions governing the exercise of Tandem and Stand-Alone Rights following the cessation of the recipient's Service shall be the same as those set forth in Section I.C of this Article Two for the options granted under the Discretionary Grant Program, and the Plan Administrator's discretionary authority under Section I.C.2 of this Article Two shall also extend to any outstanding Tandem or Stand-Alone Appreciation Rights.

IV. CHANGE IN CONTROL

G. The shares subject to each award outstanding under the Discretionary Grant Program at the time of a Change in Control shall automatically vest in full so that each such award shall, immediately prior to the effective date of the Change in Control, become exercisable for all

of the Common Shares at the time subject to that award and may be exercised for any or all of those shares as fully-vested Common Shares. However, the shares subject to an outstanding award shall not vest on such an accelerated basis if and to the extent: (i) such award is assumed by the successor company (or parent thereof) or otherwise continued in full force and effect pursuant to the terms of the Change in Control transaction and any repurchase rights of the Company with respect to any unvested shares purchasable under the option are concurrently assigned to such successor company (or parent thereof) or otherwise continued in effect or (ii) the acceleration of such award is subject to other limitations imposed by the Plan Administrator at the time of grant.

H. All outstanding repurchase rights shall also terminate automatically, and the Common Shares subject to those terminated rights shall immediately vest in full, in the event of any Change in Control, except to the extent: (i) those repurchase rights are assigned to the successor company (or parent thereof) or otherwise continued in full force and effect pursuant to the terms of the Change in Control transaction or (ii) such accelerated vesting is precluded by other limitations imposed by the Plan Administrator at the time the repurchase right is issued.

I. Immediately following the consummation of the Change in Control, all outstanding awards under this Discretionary Grant Program shall terminate and cease to be outstanding, except to the extent assumed by the successor company (or parent thereof) or otherwise continued in effect pursuant to the terms of the Change in Control transaction.

J. Each award which is assumed in connection with a Change in Control or otherwise continued in effect shall be appropriately adjusted, immediately after such Change in Control, to apply to the number and class of securities which would have been issuable to the Optionee in consummation of such Change in Control, had the award been exercised immediately prior to such Change in Control. Appropriate adjustments shall also be made to (i) the exercise or base price payable per share under each outstanding award, provided the aggregate exercise or base price payable for such securities shall remain the same, (ii) the number and class of securities available for issuance under the Plan following the consummation of such Change in Control, (iii) the number and/or class of securities by which the share reserve under the Plan is to increase automatically each calendar year pursuant to the automatic share increase provisions of the Plan, (iv) the number and/or class of securities that may be issued pursuant to Incentive Options granted under the Plan, (v) the number and/or class of securities for which any one person may be granted awards under the Plan per calendar year, (vi) the number and/or class of securities subject to each outstanding award under the Stock Issuance Program and the cash consideration (if any) payable per share, (vii) the number and/or class of securities subject to each outstanding award under the Automatic Grant Program and the cash consideration (if any) payable per share, (viii) the number and/or class of securities for which awards may subsequently be made to new and continuing non-employee Board members under the Automatic Grant Program and (ix) the number and/or class of securities subject to the Company's outstanding repurchase rights under the Plan and the repurchase price payable per share. To the extent the actual holders of the Company's outstanding Common Shares receive cash consideration for their Common Shares in consummation of the Change in Control, the successor company may, in connection with the assumption or continuation of the outstanding awards under this Discretionary Grant Program, substitute one or more shares of its

own common stock with a fair market value equivalent to the cash consideration paid per Common Share in such Change in Control.

K. The Plan Administrator shall have the discretion, exercisable either at the time the award is granted under the Discretionary Grant Program or at any time while the award remains outstanding, to structure one or more awards so that those awards shall, immediately prior to the effective date of an actual Change in Control transaction, vest and become exercisable as to all the Common Shares at the time subject to those awards and may be exercised as to any or all of those shares as fully vested Common Shares, whether or not those awards are to be assumed in the Change in Control or otherwise continued in effect. In addition, the Plan Administrator shall have the discretionary authority to structure one or more of the Company's repurchase rights under this Discretionary Grant Program so that those rights shall terminate immediately prior to the effective date of an actual Change in Control transaction, and the shares subject to those terminated rights shall thereupon vest in full.

L. The Plan Administrator shall also have full power and authority, exercisable either at the time the award is granted or at any time while the award remains outstanding, to structure such award so that the shares subject to that award will automatically vest on an accelerated basis should the Optionee's Service terminate by reason of an Involuntary Termination within a designated period (not to exceed eighteen (18) months) following the effective date of any Change in Control in which the award is assumed or otherwise continued in effect and the repurchase rights applicable to those shares do not otherwise terminate. Any award so accelerated shall remain exercisable for the fully-vested shares until the expiration or sooner termination of the award term. In addition, the Plan Administrator may provide that one or more of the Company's outstanding repurchase rights with respect to shares held by the Optionee at the time of such Involuntary Termination shall immediately terminate on an accelerated basis, and the shares subject to those terminated rights shall accordingly vest at that time.

M. The portion of any Incentive Option accelerated in connection with a Change in Control shall remain exercisable as an Incentive Option only to the extent the applicable One Hundred Thousand Dollar (\$100,000) limitation is not exceeded. To the extent such dollar limitation is exceeded, the accelerated portion of such option shall be exercisable as a Non-Statutory Option under the Federal tax laws.

N. The grant of options and share appreciation rights under the Plan shall in no way affect the right of the Company to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

V. CANCELLATION AND REGRANT OF OPTIONS AND SHARE APPRECIATION RIGHTS

A. The Plan Administrator shall have the authority to effect, at any time and from time to time, with the consent of the affected award holders, the cancellation of any or all outstanding options or share appreciation rights under the Plan and to grant in substitution therefor one or more of the following: (i) new options or share appreciation rights covering the same or

different number of Common Shares but with an exercise or base price per share based on the Fair Market Value per Common Share on the new award grant date or (ii) cash or equity securities of the Company, whether vested or unvested.

B. The Plan Administrator shall also have the authority, exercisable at any time and from time to time, with the consent of the affected holders, to reduce the exercise or base price of one or more outstanding options or share appreciation rights to a price not less than the then current Fair Market Value per Common Share or issue new options or share appreciation rights with a lower exercise or base price in immediate cancellation of outstanding options or share appreciation rights with a higher exercise or base price

ARTICLE 3

SHARE ISSUANCE PROGRAM

I. SHARE ISSUANCE TERMS

Common Shares may be issued under the Share Issuance Program through direct and immediate issuances. Each such share issuance shall be evidenced by a Share Issuance Agreement which complies with the terms specified below. Common Shares may also be issued under the Share Issuance Program pursuant to share right awards or restricted share units.

H. Issue Price.

3. The issue price per share shall be fixed by the Plan Administrator but shall not be less than one hundred percent (100%) of the Fair Market Value per Common Share on the issue date.

4. Subject to the provisions of Section I of Article Four, Common Shares may be issued under the Share Issuance Program for any of the following items of consideration which the Plan Administrator may deem appropriate in each individual instance:

- (i) cash or check made payable to the Company,
- (ii) services rendered or to be rendered to the Company (or any Parent or Subsidiary), or
- (iii) any other valid consideration under the Companies Act 1981 (Bermuda), as amended.

I. Vesting Provisions.

7. Common Shares issued under the Share Issuance Program may, in the discretion of the Plan Administrator, be fully and immediately vested upon issuance or may vest in one or more installments over the Participant's period of Service or upon attainment of specified performance objectives. Common Shares may also be issued under the Share Issuance Program pursuant to share right awards or restricted share units which entitle the recipients to receive the shares underlying those awards or units upon the attainment of designated performance goals or the satisfaction of specified Service requirements or upon the expiration of a designated time period following the vesting of those awards or units, including (without limitation) a deferred distribution date following the termination of the Participant's Service.

8. Any new, substituted or additional securities or other property (including money paid other than as a regular cash dividend) which the Participant may have the right to receive with respect to the Participant's unvested Common Shares by reason of any share dividend, share split, spin-off transaction, extraordinary distribution (whether in cash, securities or other property), recapitalization, combination of shares, exchange of shares or other similar change

affecting the outstanding Common Shares as a class without the Company's receipt of consideration shall be issued subject to (i) the same vesting requirements applicable to the Participant's unvested Common Shares and (ii) such escrow arrangements as the Plan Administrator shall deem appropriate. Equitable adjustments to reflect each such transaction shall also be made by the Plan Administrator to the repurchase price payable per share by the Company for any unvested securities subject to its existing repurchase rights under the Plan; provided the aggregate repurchase price shall in each instance remain the same.

9. The Participant shall have full shareholder rights with respect to any Common Shares issued to the Participant under the Share Issuance Program, whether or not the Participant's interest in those shares is vested. Accordingly, the Participant shall have the right to vote such shares and to receive any regular cash dividends paid on such shares. The Participant shall not have any shareholder rights with respect to the Common Shares subject to a share right award or restricted share unit until that award or unit vests and the Common Shares are actually issued thereunder. However, dividend-equivalent units may be paid or credited, either in cash or in actual or phantom Common Shares, on outstanding share right awards or restricted share unit, subject to such terms and conditions as the Plan Administrator may deem appropriate.

10. Should the Participant cease to remain in Service while holding one or more unvested Common Shares issued under the Share Issuance Program or should the performance objectives not be attained with respect to one or more such unvested Common Shares, then those shares shall be immediately surrendered to the Company for cancellation, and the Participant shall have no further shareholder rights with respect to those shares. To the extent the surrendered shares were previously issued to the Participant for consideration paid in cash or cash equivalent (including the Participant's purchase-money indebtedness), the Company shall repay to the Participant the lower of (i) the cash consideration paid for the surrendered shares or (ii) the Fair Market Value of those shares at the time of Participant's cessation of Service and shall cancel the unpaid principal balance of any outstanding purchase-money note of the Participant attributable to such surrendered shares by the applicable clause (i) or (ii) amount.

11. The Plan Administrator may in its discretion waive the surrender and cancellation of one or more unvested Common Shares (or other assets attributable thereto) which would otherwise occur upon the non-completion of the vesting schedule applicable to those shares. Such waiver shall result in the immediate vesting of the Participant's interest in the Common Shares as to which the waiver applies. Such waiver may be effected at any time, whether before or after the Participant's cessation of Service or the attainment or non-attainment of the applicable performance objectives.

12. Outstanding share right awards or restricted share units shall automatically terminate, and Common Shares shall not be issued in satisfaction of those awards or units, if the performance goals or Service requirements established for such awards or units are not attained or satisfied. The Plan Administrator, however, shall have the discretionary authority to issue vested Common Shares under one or more outstanding share right awards or restricted share units as to which the designated performance goals or Service requirements have not been attained or satisfied.

II. CHANGE IN CONTROL

J. Upon the occurrence of a Change in Control, all outstanding repurchase rights under the Share Issuance Program shall terminate automatically, and the Common Shares subject to those terminated rights shall immediately vest in full, except to the extent: (i) those repurchase rights are assigned to the successor company (or parent thereof) or otherwise continued in full force and effect pursuant to the terms of the Change in Control transaction or (ii) such accelerated vesting is precluded by other limitations imposed by the Plan Administrator at the time the repurchase right is issued.

K. Each share right award or restricted share unit outstanding at the time of a Change in Control shall be assumable by the successor company (or parent thereof) or may otherwise be continued in effect pursuant to the terms of such Change in Control transaction. Each share right award or restricted share unit which is so assumed or otherwise continued in effect shall be adjusted immediately after the consummation of that Change in Control so as to apply to the number and class of securities into which the Common Shares subject to the award immediately prior to the Change in Control would have been converted in consummation of such Change in Control had those shares actually been outstanding at that time. Appropriate adjustments shall also be made to the cash consideration (if any) payable per share under each outstanding share right award or restricted share unit, provided the aggregate cash consideration payable for such securities shall remain the same. To the extent the actual holders of the Company's outstanding Common Shares receive cash consideration for their Common Shares in consummation of the Change in Control, the successor company may, in connection with the assumption or continuation of the outstanding share right awards or restricted share units, substitute one or more shares of its own common stock with a fair market value equivalent to the cash consideration paid per Common Share in such Change in Control transaction. If any such share right award or restricted share unit is not so assumed or otherwise continued in effect, then such award or unit shall vest, and the Common Shares subject to such award or unit shall become issuable, immediately prior to the consummation of the Change in Control.

L. The Plan Administrator shall have the discretionary authority to structure one or more unvested share issuances or one or more share right awards or restricted share units under the Share Issuance Program so that the Common Shares subject to those issuances or awards or units shall automatically vest (or vest and become issuable) in whole or in part immediately upon the occurrence of a Change in Control or upon the subsequent termination of the Participant's Service by reason of an Involuntary Termination within a designated period (not to exceed eighteen (18) months) following the effective date of that Change in Control transaction.

III. SHARE ESCROW/LEGENDS

Unvested shares may, in the Plan Administrator's discretion, be held in escrow by the Company until the Participant's interest in such shares vests or may be issued directly to the Participant with restrictive legends on the certificates evidencing those unvested shares.

ARTICLE 4

AUTOMATIC GRANT PROGRAM

I. AWARD TERMS

M. Automatic Grants.

1. Grants On or After [REDACTED], 2014. The awards to be made pursuant to the Automatic Grant Program on or after [REDACTED], 2014 shall be as follows:

(i) On the date of each annual shareholders meeting, beginning with the 2014 Annual Shareholders Meeting, each individual who commences service as a non-employee Board member by reason of his or her election to the Board at such annual meeting and each individual who is to continue to serve as a non-employee Board member, whether or not that individual is standing for re-election to the Board at that particular annual meeting, shall automatically be granted an award in the form of restricted share units covering that number of Common Shares (rounded up to the next whole share) determined by dividing Forty-Two Thousand Dollars (\$42,000.00) by the average Fair Market Value per share for the ninety (90)-day period preceding the grant date (the "Annual RSU Grant").

(ii) Each individual who is first elected or appointed as a non-employee Board member at any time on or after [REDACTED], 2014 and other than as a result of his or her initial election to the Board at an annual shareholders meeting shall automatically be granted, on the date of such initial election or appointment, an award in the form of restricted share units covering that number of Common Shares (rounded up to the next whole share) determined by dividing the Applicable Dollar Amount by the average Fair Market Value per share for the ninety (90)-day period immediately preceding the grant date, provided that individual has not previously been in the employ of the Company or any Parent or Subsidiary (the "Initial RSU Grant"). The Applicable Dollar Amount shall be determined by multiplying Forty-Two Thousand Dollars (\$42,000.00) by a fraction, the numerator of which is the number of months (rounded up to the next whole month) that will elapse between the date of the award recipient's election or appointment and the anticipated date of the next annual shareholders meeting and the denominator of which is twelve (12).

(iii) Notwithstanding anything to the contrary in subsection (i) or (ii) above, in no event will the number of Common Shares subject to any Initial or Annual RSU Grant exceed ten thousand (10,000) Common Shares.

(iv) The Primary Committee shall have the discretionary authority to provide that one or more non-employee Board members will receive an option in lieu of any award of restricted share units authorized under this Article Four; provided, that any such option grant shall have an aggregate value on the date of grant that is approximately

equal to the aggregate value of the restricted share units that otherwise would have been granted to such non-employee Board member.

2. Grants Prior to [REDACTED], 2014. Awards made pursuant to the Automatic Grant Program prior to [REDACTED], 2014 were as follows:

(i) Each individual who was serving as a non-employee Board member on the Underwriting Date was automatically granted on such date, an award in the form of an option to purchase seven thousand and five hundred (7,500) Common Shares (the “Underwriting Date Grant”).

(ii) Each individual who was first elected or appointed as a non-employee Board member at any time after the Underwriting Date and other than as a result of his or her initial election to the Board at an annual shareholders meeting was automatically granted, on the date of such initial election or appointment, an award in the form of an option to purchase that number of Common Shares determined by multiplying seven thousand and five hundred (7,500) by a fraction, the numerator of which was the number of months (rounded up to the next whole month) that were expected to elapse between the date of such election or appointment and the anticipated date of the next annual shareholders meeting and the denominator of which was twelve (12), provided that individual was not previously in the employ of the Company or any Parent or Subsidiary (the “Initial Option Grant”).

(iii) On the date of each annual shareholders meeting, beginning with the 2010 Annual Shareholders Meeting and ending with the 2013 Annual Shareholders Meeting, each individual who commenced service as a non-employee Board member by reason of his or her election to the Board at such annual meeting and each individual who was to continue to serve as a non-employee Board member, whether or not that individual was standing for re-election to the Board at that particular annual meeting, was automatically granted an award in the form of an option to purchase seven thousand and five hundred (7,500) Common Shares (the “Annual Option Grant”).

N. **Terms of Automatic Restricted Share Unit Grants**

1. **Vesting of Awards.**

(iv) Each Annual RSU Grant made under this Article Four shall vest in a series of four (4) successive equal quarterly installments upon the Participant’s completion of each three (3)-month period of Board service over the one (1)-year period measured from the award grant date. Notwithstanding the foregoing, any portion of an Annual RSU Grant that has not vested prior to the date of the regular annual shareholders meeting for the year following the year in which the award was granted shall automatically vest at such time, but only if the Participant continues in Board service through the date of such annual meeting.

(v) Each Initial RSU Grant made under this Article Four shall vest in quarterly installments upon the Participant's completion of Board Service through each of the quarterly vesting dates in effect for the most recent Annual RSU Grant made in accordance with Section I.A.1(i) of this Article Four. The number of restricted share units eligible to vest on each quarterly vesting date shall be equal to (a) the total number of restricted share units subject to the Initial RSU Grant divided by the number of months (rounded up to the next whole month) between the grant date of such Initial RSU Grant and the anticipated date of the next annual shareholders meeting used to calculate the Applicable Dollar Amount for such Initial RSU Grant, multiplied by (b) the total number of months of Board service completed by the Participant (rounded up to the next whole month) since the grant date of the most recent Annual RSU Grant (or, if later, the most recent quarterly vesting date for such Annual RSU Grant). Notwithstanding the foregoing, any portion of an Initial RSU Grant that has not vested prior to the date of the first annual shareholders meeting following the award grant date shall automatically vest at such time, but only if the Participant continues in Board service through the date of such annual meeting.

2. Death or Disability. In the event a Participant ceases to serve as a Board member by reason of his or her death or Permanent Disability, then each outstanding restricted share unit award granted to such Participant under this Article Four that has not otherwise vested shall, immediately upon the Participant's cessation of Board service, automatically vest in full.

3. Issuance of Shares. The Common Shares underlying the portion of each Initial or Annual RSU Grant that vests in accordance with the provisions of Sections I.B.1 or I.B.2 of this Article Four shall be issued upon the earlier to occur of (i) the date of the regular annual shareholders meeting (or, if earlier, December 15) for the calendar year following the calendar year in which the most recent Annual RSU Grant was made or (ii) the date of the Participant's cessation of Board service; *provided, however*, that the Plan Administrator may allow one or more non-employee Board members to defer the issuance of the shares in accordance with the applicable requirements of Code Section 409A and the regulations thereunder.

O. **Terms of Automatic Option Grants**

1. Exercise Price.

(i) The exercise price per share is equal to one hundred percent (100%) of the Fair Market Value per Common Share on the option grant date.

(ii) The exercise price is payable in one or more of the alternative forms authorized under the Discretionary Grant Program. Except to the extent the sale and remittance procedure specified thereunder is utilized, payment of the exercise price for the purchased shares must be made on the Exercise Date.

2. Option Term. Each option has a maximum term of ten (10) years measured from the option grant date, subject to earlier termination following the non-employee Board member's cessation of Board service.

3. Exercise and Vesting of Options. Each option is immediately exercisable for any or all of the option shares. However, any unvested shares purchased under the option shall be subject to repurchase by the Company, at the lower of (i) the exercise price paid per share or (ii) the Fair Market Value per Common Share at the time of repurchase, upon the non-employee Board member's cessation of Board service prior to vesting in those shares. The shares subject to each Underwriting Date Grant vested, and the Company's repurchase right lapsed, on the date of the 2010 Annual Shareholders Meeting provided the individual continued in Board service through such date. The shares subject to each Initial Option Grant vested (or will vest), and the Company's repurchase right lapsed (or will lapse), on the date of the next succeeding regular annual shareholders meeting following the award grant date provided the individual continued (or continues) in Board service through such date. The shares subject to each Annual Option Grant vested (or will vest), and the Company's repurchase right lapsed (or will lapse), upon the earlier of (i) the Participant's completion of one (1) year of Board service measured from the award grant date or (ii) the date of the regular annual shareholders meeting for the year following the year in which the award was granted, provided the individual continued (or continues) in Board service through such date.

4. Termination of Board Service. The following provisions shall govern the exercise of any options held by the Optionee at the time of the Optionee's cessation of Board service:

(i) The Optionee (or, in the event of Optionee's death while holding the option, the personal representative of the Optionee's estate or the person or persons to whom the option is transferred pursuant to the Optionee's will or the laws of inheritance or the designated beneficiary or beneficiaries of such option) shall have a twelve (12)-month period following the date of such cessation of Board service in which to exercise such option.

(ii) During the twelve (12)-month exercise period, the option may not be exercised in the aggregate for more than the number of vested Common Shares for which the option is exercisable at the time of the Optionee's cessation of Board service. However, should the Optionee cease to serve as a Board member by reason of death or Permanent Disability, then all shares at the time subject to the option shall immediately vest so that such option may, during the twelve (12)-month exercise period following such cessation of Board service, be exercised for any or all of those shares as fully vested Common Shares.

(iii) In no event shall the option remain exercisable after the expiration of the option term. Upon the expiration of the twelve (12)-month exercise period or (if earlier) upon the expiration of the option term, the option shall terminate and cease to be outstanding for any vested shares for which the option has not been exercised. However, the option shall, immediately upon the Optionee's cessation of Board service for any reason

(other than cessation of Board service by reason of death or Permanent Disability), terminate and cease to be outstanding to the extent the option is not otherwise at that time exercisable for vested shares.

II. CHANGE IN CONTROL

O. In the event of any Change in Control, each outstanding Award granted under this Article Four but not otherwise vested shall, immediately prior to the effective date of that Change in Control transaction, automatically vest in full.

P. Any option that vests on an accelerated basis in accordance with Section II.A of this Article Four shall, immediately following the consummation of the Change in Control, terminate and cease to be outstanding, except and to the extent assumed by the successor corporation (or parent thereof) or otherwise continued in effect pursuant to the terms of the Change in Control transaction.

Q. The shares subject to any restricted share units granted under this Article Four that vest pursuant to Sections I.B.1, I.B.2 or II.A shall be issued to the Participant as soon as practicable following the effective date of the Change in Control but in no event more than fifteen (15) business days after such effective date, except to the extent such issuance is subject to a deferred distribution date under Code Section 409A.

III. REMAINING TERMS

The remaining terms of each award granted under the Automatic Grant Program shall be as set forth in the award agreement approved by the Primary Committee to evidence the awards made under this Article Four.

ARTICLE 5

MISCELLANEOUS

I. FINANCING

The Plan Administrator may permit any Optionee or Participant to pay the option exercise price under the Discretionary Grant Program or the purchase price for shares issued under the Share Issuance Program by delivering a full-recourse promissory note payable in one or more installments which bears interest at a market rate and is secured by the purchased shares and is subject to such other terms and conditions deemed appropriate by the Plan Administrator. In no event, however, may the maximum credit available to the Optionee or Participant exceed the sum of (i) the aggregate option exercise price or purchase price payable for the purchased shares plus (ii) any applicable Tax liability incurred by the Optionee or the Participant in connection with the option exercise or share purchase.

II. EFFECTIVE DATE AND TERM OF PLAN

C. The Plan became effective on the Plan Effective Date.

D. The Plan was amended and restated by the Board on February 10, 2010 to be effective on the Underwriting Date, subject to shareholder approval, to (i) provide for an automatic annual increase to the share reserve, (ii) limit the number of shares for which any one individual may receive awards under the Plan in any one year, (iii) provide for the grant of share appreciation rights, (iv) add the Automatic Grant Program, and (v) effect technical revisions to facilitate plan administration.

E. One or more provisions of the Plan, including (without limitation) the vesting acceleration provisions of the Plan relating to Changes in Control, may, in the Plan Administrator's discretion, be extended to one or more awards incorporated from the Predecessor Plan which do not otherwise contain such provisions.

F. The Plan shall terminate upon the earliest of (i) the expiration of the ten (10)-year period measured from the Plan Effective Date, (ii) the date on which all shares available for issuance under the Plan shall have been issued as vested shares or (iii) the termination of all outstanding awards under the Plan in connection with a Change in Control. All awards and unvested share issuances outstanding at the time of a clause (i) termination event shall continue to have full force and effect in accordance with the provisions of the documents evidencing those awards or issuances.

III. AMENDMENT OF THE PLAN

A. The Board shall have complete and exclusive power and authority to amend or modify the Plan in any or all respects. However, no such amendment or modification shall adversely affect the rights and obligations with respect to awards or unvested share issuances at the

time outstanding under the Plan unless the Optionee or the Participant consents to such amendment or modification. In addition, certain amendments may require shareholder approval pursuant to applicable laws and regulations.

B. Awards may be granted under the Plan which involve Common Shares in excess of the number of Common Shares then available for issuance under the Plan, provided no shares shall actually be issued pursuant to those awards until there is obtained shareholder approval of an amendment sufficiently increasing the number of Common Shares available for issuance under the Plan. If such shareholder approval is not obtained within twelve (12) months after the date the first such excess grants are made, then all awards granted on the basis of such excess shares shall terminate and cease to be outstanding.

IV. USE OF PROCEEDS

Any cash proceeds received by the Company from the sale of Common Shares under the Plan shall be used for general corporate purposes.

V. WITHHOLDING

The Company's obligation to deliver Common Shares upon the exercise of any options or share appreciation rights granted under the Plan or upon the issuance or vesting of any shares issued under the Plan shall be subject to the satisfaction of all Tax withholding requirements. The Plan Administrator may, in its discretion, provide Optionees and Participants to whom awards are made under the Plan (other than the awards made under the Automatic Grant Program) with the right to use Common Shares in satisfaction of all or part of the Taxes to which such holders may become subject in connection with the exercise, issuance or vesting of those awards or the issuance Common Shares thereunder. Such right may be provided to any such holder in either or both of the following formats:

4. Share Withholding: The election to have the Company withhold, from the Common Shares otherwise issuable upon the issuance, exercise or vesting of such award or the Common Shares thereunder, a portion of those shares with an aggregate Fair Market Value equal to the percentage of the Taxes (not to exceed one hundred percent (100%)) designated by such individual. The Common Shares so withheld shall not reduce the number of Common Shares authorized for issuance under the Plan.

5. Share Delivery: The election to deliver to the Company, at the time of the issuance, exercise or vesting of such award or the issuance of Common Shares thereunder, one or more Common Shares previously acquired by such individual (other than in connection with the exercise, share issuance or share vesting triggering the Taxes) with an aggregate Fair Market Value equal to the percentage of the Taxes (not to exceed one hundred percent (100%)) designated by the individual. The Common Shares so delivered shall neither reduce the number of Common Shares authorized for issuance under the Plan nor be added to the number of Common Shares authorized for issuance under the Plan.

VI. REGULATORY APPROVALS

A. The implementation of the Plan, the granting of any awards under the Plan and the issuance of any Common Shares (i) upon the exercise of any option or share appreciation right or (ii) under the Share Issuance Program shall be subject to the Company's procurement of all approvals and permits required by regulatory authorities having jurisdiction over the Plan, the options and rights granted under it and the Common Shares issued pursuant to it.

B. No Common Shares or other assets shall be issued or delivered under the Plan unless and until there shall have been compliance with all applicable requirements of applicable securities laws, including the filing and effectiveness of the Form S-8 registration statement for the Common Shares issuable under the Plan, and all applicable listing requirements of any Stock Exchange on which Common Shares are then listed for trading

VII. NO EMPLOYMENT OR SERVICE RIGHTS

Nothing in the Plan shall confer upon the Optionee or the Participant any right to continue in Service for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Company (or any Parent or Subsidiary employing or retaining such person) or of the Optionee or Participant, which rights are hereby expressly reserved by each, to terminate such person's Service at any time for any reason, with or without cause, subject to compliance with local law and the terms of any employment agreement.

APPENDIX

The following definitions shall be in effect under the Plan:

A. **Automatic Grant Program** shall mean the Automatic Grant Program in effect under the Plan.

B. **Board** shall mean the Company's Board of Directors.

C. **Change in Control** shall mean a change in ownership or control of the Company effected through any of the following transactions:

(i) a merger, consolidation or other reorganization approved by the Company's shareholders, unless securities representing more than fifty percent (50%) of the total combined voting power of the voting securities of the successor company are immediately thereafter beneficially owned, directly or indirectly and in substantially the same proportion, by the persons who beneficially owned the Company's outstanding voting securities immediately prior to such transaction, or

(ii) a shareholder-approved sale, transfer or other disposition of all or substantially all of the Company's assets in liquidation or dissolution of the Company, or

(iii) the acquisition, directly or indirectly by any person or related group of persons (other than the Company or a person that directly or indirectly controls, is controlled by, or is under common control with, the Company), of beneficial ownership (within the meaning of Rule 13d-3 of the 1934 Act) of securities possessing more than fifty percent (50%) of the total combined voting power of the Company's outstanding securities pursuant to a tender or exchange offer made directly to the Company's shareholders.

In no event shall any public offering of the Company's securities be deemed to constitute a Change in Control.

D. **Code** shall mean the U.S. Internal Revenue Code of 1986, as amended.

E. **Common Shares** shall mean the Company's common shares.

F. **Company** shall mean Alpha and Omega Semiconductor Limited, a company incorporated and existing under the laws of the Islands of Bermuda, and any successor company to all or substantially all of the assets or voting stock of Alpha and Omega Semiconductor Limited which shall by appropriate action adopt the Plan.

G. **Discretionary Grant Program** shall mean the discretionary grant program in effect under Article Two of the Plan pursuant to which options and share appreciation rights may be granted to one or more eligible individuals.

H. **Employee** shall mean an individual who is in the employ of the Company (or any Parent or Subsidiary), subject to the control and direction of the employer entity as to both the work to be performed and the manner and method of performance.

I. **Exercise Date** shall mean the date on which the Company shall have received written notice of the option exercise.

J. **Fair Market Value** per Common Share on any relevant date shall be determined in accordance with the following provisions:

(i) If the Common Shares are at the time traded on the Nasdaq Global or Global Select Market, then the Fair Market Value shall be the closing selling price per Common Share on the date in question, as such price is reported by the National Association of Securities Dealers for that particular Stock Exchange and published in The Wall Street Journal. If there is no closing selling price for the Common Share on the date in question, then the Fair Market Value shall be the closing selling price on the last preceding date for which such quotation exists.

(ii) If the Common Shares are at the time listed on any other Stock Exchange, then the Fair Market Value shall be the closing selling price per share of Common Share on the date in question on the Stock Exchange determined by the Plan Administrator to be the primary market for the Common Shares, as such price is officially quoted in the composite tape of transactions on such exchange. If there is no closing selling price for the Common Shares on the date in question, then the Fair Market Value shall be the closing selling price on the last preceding date for which such quotation exists.

(iii) If the Common Shares are not at the time listed on any Stock Exchange, then the Fair Market Value shall be determined by the Plan Administrator through the reasonable application of a reasonable valuation method that takes into account the applicable valuation factors set forth in the Treasury Regulations issued under Section 409A of the Code; provided, however, that with respect to an Incentive Option, such Fair Market Value shall

be determined in accordance with the standards of Section 422 of the Code and the applicable Treasury Regulations thereunder.

K. **Family Member** shall mean, with respect to a particular Optionee or Participant, any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law or sister-in-law.

L. **Incentive Option** shall mean an option which satisfies the requirements of Code Section 422.

M. **Involuntary Termination** shall mean the termination of the Service of any individual which occurs by reason of:

(i) such individual's involuntary dismissal or discharge by the Company for reasons other than Misconduct, or

(ii) such individual's voluntary resignation following (A) a change in his or her position with the Company which materially reduces his or her duties and responsibilities or the level of management to which he or she reports, (B) a reduction in his or her level of compensation (including base salary, fringe benefits and target bonus under any corporate-performance based bonus or incentive programs) by more than fifteen percent (15%) or (C) a relocation of such individual's place of employment by more than fifty (50) miles, provided and only if such change, reduction or relocation is effected without the individual's consent.

N. **Misconduct** shall mean the commission of any act of fraud, embezzlement or dishonesty by the Optionee or Participant, any unauthorized use or disclosure by such person of confidential information or trade secrets of the Company (or any Parent or Subsidiary), or any other intentional misconduct by such person adversely affecting the business or affairs of the Company (or any Parent or Subsidiary) in a material manner. The foregoing definition shall not in any way preclude or restrict the right of the Company (or any Parent or Subsidiary) to discharge or dismiss any Optionee, Participant or other person in the Service of the Company (or any Parent or Subsidiary) for any other acts or omissions, but such other acts or omissions shall not be deemed, for purposes of the Plan, to constitute grounds for termination for Misconduct.

O. **1934 Act** shall mean the U.S. Securities Exchange Act of 1934, as amended.

P. **Non-Statutory Option** shall mean an option not intended to satisfy the requirements of Code Section 422.

Q. **Optionee** shall mean any person to whom an option or share appreciation right is granted under the Plan.

R. **Parent** shall mean any corporation (other than the Company) in an unbroken chain of corporations ending with the Company, provided each corporation in the unbroken chain (other than the Company) owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

S. **Participant** shall mean any person who is issued Common Shares under the Share Issuance Program or to whom restricted share units for share rights are awarded under such program.

T. **Permanent Disability or Permanently Disabled** shall mean the inability of the Optionee or the Participant to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment expected to result in death or to be of continuous duration of twelve (12) months or more. However, solely for purposes of the Automatic Grant Program, Permanent Disability or Permanently Disabled shall mean the inability of the non-employee Board member to perform his or her usual duties as a Board member by reason of any medically determinable physical or mental impairment expected to result in death or to be of continuous duration of twelve (12) months or more.

U. **Plan** shall mean the Company's 2009 Share Option/Share Issuance Plan, as set forth in this document.

V. **Plan Administrator** shall mean the particular entity, whether the Primary Committee, the Board or the Secondary Committee, which is authorized to administer the Plan with respect to one or more classes of eligible persons, to the extent such entity is carrying out its administrative functions under those programs with respect to the persons under its jurisdiction.

W. **Plan Effective Date** shall mean September 18, 2009.

X. **Primary Committee** shall mean the committee of two (2) or more non-employee Board members appointed by the Board to administer the Discretionary Grant and Stock Issuance Programs with respect to executive officers and non-employee directors.

Y. **Secondary Committee** shall mean a committee of one (1) or more Board members appointed by the Board to administer the Discretionary Grant and Share Issuance Programs with respect to eligible persons other than executive officers and non-employee directors.

Z. **Service** shall mean the performance of services for the Company (or any Parent or Subsidiary, whether now existing or subsequently established) by a person in the capacity of an Employee, a non-employee member of the board of directors or a consultant or independent advisor, except to the extent otherwise specifically provided in the documents evidencing the option grant or share issuance. For purposes of the Plan, an Optionee or Participant shall be deemed to cease Service immediately upon the occurrence of either of the following events: (i) the Optionee or Participant no longer performs services in any of the foregoing capacities for the Company or any Parent or Subsidiary or (ii) the entity for which the Optionee or Participant is performing such services ceases to remain a Parent or Subsidiary of the Company, even though the Optionee or Participant may subsequently continue to perform services for that entity. Service shall not be deemed to cease during a period of military leave, sick leave or other personal leave approved by the Company; provided, however, that for a leave which exceeds three (3) months, Service shall be deemed, for purposes of determining the period within which any outstanding option held by the Optionee in question may be exercised as an Incentive Option, to cease on the first day immediately following the expiration of such three (3)-month period, unless that Optionee is provided with the right to return to Service following such leave either by statute or by written contract. Except to the extent otherwise required by law or expressly authorized by the Plan Administrator or by the Company's written policy on leaves of absence, no Service credit shall be given for vesting purposes for any period the Optionee or Participant is on a leave of absence.

AA. **Share Issuance Agreement** shall mean the agreement entered into by the Company and the Participant at the time of issuance of Common Shares under the Share Issuance Program.

BB. **Share Issuance Program** shall mean the share issuance program in effect under the Plan.

CC. **Stock Exchange** shall mean the American Stock Exchange, the Nasdaq Global or Global Select Market, the New York Stock Exchange, the Stock Exchange of Hong Kong Limited or any internationally recognized stock exchange (as determined by the Plan Administrator).

DD. **Subsidiary** shall mean any company (other than the Company) in an unbroken chain of corporations beginning with the Company, provided each corporation (other than the last company) in the unbroken chain owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

EE. **10% Shareholder** shall mean the owner of stock (as determined under Code Section 424(d)) possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company (or any Parent or Subsidiary).

FF. **Taxes** shall mean shall mean the income tax, employment tax, social insurance, payroll tax, contributions, payment on account obligations or other amounts required to be paid in connection with the exercise of an option or issuance or vesting of the Common Shares.

GG. **Underwriting Agreement** shall mean the agreement between the Company and the underwriter or underwriters managing the initial public offering of the Common Shares.

HH. **Underwriting Date** shall mean the date on which the Underwriting Agreement is executed and priced in connection with an initial public offering of the Common Shares.



**FORM OF ALPHA AND OMEGA SEMICONDUCTOR LIMITED
RESTRICTED SHARE UNIT ISSUANCE AGREEMENT**

[FIRST NAME – LAST NAME] Option Number: [OPTION NUMBER]
 [ADDRESS LINE 1] ID: [EMPLOYEE IDENTIFIER]
 [ADDRESS LINE 2] Plan: Alpha and Omega Semiconductor Limited
 [CITY – STATE – ZIP CODE] 2009 Share Option/Share Issuance Plan
 [COUNTRY]

A. The Company has implemented an automatic grant program under the Plan pursuant to which eligible non-employee members of the Board will automatically receive awards of restricted share units at periodic intervals over their period of Board service in order to provide such individuals with a meaningful incentive to continue to serve as members of the Board.

B. Participant is an eligible non-employee Board member, and this Agreement is executed pursuant to, and is intended to carry out the purposes of, the Plan in connection with the automatic grant of restricted share units to Participant.

C. All capitalized terms in this Agreement shall have the meaning assigned to them in the attached Appendix A.

a. **Grant of Restricted Share Units**. Alpha and Omega Semiconductor Limited (the “Company”) hereby awards to [FIRST NAME – LAST NAME], as of the Award Date, Restricted Share Units under the 2009 Share Option/Share Issuance Plan. Each Restricted Share Unit represents the right to receive one Common Share in accordance with the express provisions of this Agreement. The number of Common Shares subject to the awarded Restricted Share Units, the applicable vesting schedule for those shares, the dates on which those vested shares shall become issuable to Participant and the remaining terms and conditions governing the award (the “Award”) shall be as set forth in this Agreement.

AWARD SUMMARY

Award Date: [OPTION DATE, Month DD, YYYY]

Number of Shares

Subject to Award: [TOTAL SHARES GRANTED] – Common Shares (the “Shares”)

Vesting Schedule: The Restricted Share Units shall vest with respect to the Shares in a series of four (4) successive equal quarterly installments upon the Participant’s completion of each three (3)-month period of Board service over the one (1)-year period measured from the Award Date. Notwithstanding the foregoing, if the Company’s regular annual shareholders meeting for the calendar year immediately following the Award Date occurs prior to the one (1)-year period measured from the Award Date, then the last quarterly installment shall automatically vest on the date of such annual shareholders meeting, but only if the Participant continues in Board service through the date of such meeting. The Shares shall also be subject to accelerated vesting in accordance with the provisions of Paragraphs 3 and 5.

Issuance Schedule : Except as otherwise provided in Paragraph 5, each Share in which the Participant vests in accordance with the terms of this Agreement shall be issued, subject to the Company’s collection of all applicable Withholding Taxes, on the earlier to occur of (a) the date of the regular annual shareholders meeting (or, if earlier, December 15) for the calendar year following the Award Date or (b) the date of the Participant’s cessation of Board service, or as soon thereafter as administratively practicable (the “Issuance Date”).

2. **Limited Transferability**. Prior to actual receipt of the Shares which vest hereunder, the Participant may not transfer any interest in the Award or the underlying Shares. Any Shares which vest hereunder but which otherwise remain unissued at the time of the Participant’s death may be transferred pursuant to the provisions of the Participant’s will or the laws of inheritance.

2. **Cessation of Service**.

(a) Should the Participant cease Board service for any reason, other than death or Permanent Disability, prior to vesting in one or more Shares subject to this Award, then the Award will be immediately cancelled with respect to those unvested Shares, and the number of Restricted Share Units will be reduced accordingly. The Participant shall thereupon cease to have any right or entitlement to receive any Shares under those cancelled units.

(b) Should the Participant cease Board service by reason of death or Permanent Disability, then any Shares at the time subject to this Award but not otherwise vested shall automatically vest in full.

3. **Shareholder Rights**. The holder of this Award shall not have any shareholder rights, including voting or dividend rights, with respect to the Shares subject to the Award until the Participant becomes the record holder of those Shares upon their actual issuance.

4. **Change of Control**.

(a) Should Participant continue in Board service until the effective date of a Change in Control, then any Shares at the time subject to this Award but not otherwise vested shall automatically vest in full immediately prior to the effective date of that Change in Control. All vested Shares shall be issued to the Participant as soon as practicable following the effective date of the Change in Control but in no event more than fifteen (15) business days after such effective date.

(b) This Agreement shall not in any way affect the right of the Company to adjust, reclassify, reorganize or otherwise change its capital or business structure

or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

5. **Adjustment in Shares**. In the event of any of the following transactions affecting the outstanding Common Shares as a class without the Company's receipt of consideration: any share split, share dividend, recapitalization, combination of shares, exchange of shares, spin-off transaction or other change affecting the outstanding Common Shares as a class without the Company's receipt of consideration, or in the event of a substantial reduction to the value of the outstanding Common Shares as a result of a spin-off transaction or extraordinary distribution, then equitable and proportional adjustments shall be made by the Plan Administrator to the total number and/or class of securities issuable pursuant to this Award in order to reflect such change.

6. **Issuance of Shares**. On the Issuance Date for the Shares which vest in accordance with the provisions of this Agreement, the Company shall issue to or on behalf of the Participant a certificate (which may be in electronic form) for the vested Common Shares to be issued on such date, subject to the Company's collection of the applicable Withholding Taxes.

7. **Compliance with Laws and Regulations**. The issuance of Common Shares pursuant to the Award shall be subject to compliance by the Company and the Participant with all applicable requirements of law relating thereto and with all applicable regulations of the Stock Exchange on which the Common Shares are listed for trading at the time of such issuance.

8. **Notices**. Any notice required to be given or delivered to the Company under the terms of this Agreement shall be in writing and addressed to the Company at its principal corporate offices, and directed to the attention of Stock Plan Administrator. Any notice required to be given or delivered to the Participant shall be in writing and addressed to the Participant at the most current address then on record with the Company or shall be delivered electronically to the Participant through the Company's electronic mail system. All notices shall be deemed effective upon personal delivery, upon sending of an email or upon deposit in the mail, postage prepaid and properly addressed to the party to be notified.

9. **Successors and Assigns**. Except to the extent otherwise provided in this Agreement, the provisions of this Agreement shall inure to the benefit of, and be binding upon, the Company and its successors and assigns and the Participants, and the Participant's assigns, the legal representatives, heirs and legatees of the Participant's estate.

10. **Construction**. This Agreement and the Award evidenced hereby are made and granted pursuant to the Plan and are in all respects limited by and subject to the terms of the Plan. All decisions of the Plan Administrator with respect to any question or issue arising under the Plan or this Agreement shall be conclusive and binding on all persons having an interest in the Award.

11. **Governing Law**. The interpretation, performance and enforcement of this Agreement shall be governed by the laws of the State of California without resort to that State's conflict-of-laws rules.

12. **No Impairment of Rights**. This Agreement shall not in any way be construed or interpreted so as to affect adversely or otherwise impair the right of the Company or the shareholders to remove Participant from the Board at any time in accordance with the provisions of applicable law.

13. **Code Section 409A**. It is the intention of the parties that the provisions of this Agreement comply with the requirements of the short-term deferral exception of Section 409A of the Code and Treasury Regulations Section 1.409A-1(b)(4). Accordingly, to the extent there is any ambiguity as to whether one or more provisions of this Agreement would otherwise contravene the requirements or limitations of Code Section 409A applicable to such short-term deferral exception, then those provisions shall be interpreted and applied in a manner that does not result in a violation of the requirements or limitations of Code Section 409A and the Treasury Regulations thereunder that apply to such exception.

BY ACCEPTING THIS AWARD, THE PARTICIPANT AGREES TO ALL OF THE TERMS AND CONDITIONS DESCRIBED IN THIS AGREEMENT AND IN THE PLAN.

ALPHA AND OMEGA
SEMICONDUCTOR LIMITED PARTICIPANT

Mike Chang [FIRST NAME – LAST NAME]
Chief Executive Officer [OPTION DATE, Month DD, YYYY]

APPENDIX A

DEFINITIONS

The following definitions shall be in effect under the Agreement:

- A. **Agreement** shall mean this Restricted Share Unit Issuance Agreement.
- B. **Award** shall mean the award of restricted share units made to the Participant pursuant to the terms of this Agreement.
- C. **Award Date** shall mean the date the restricted share units are awarded to the Participant pursuant to the Agreement and shall be the date indicated in Paragraph 1.
- D. **Board** shall mean the Company's Board of Directors.
- E. **Change in Control** shall mean a change in ownership or control of the Company effected through any of the following transactions:

(i) a merger, consolidation or other reorganization approved by the Company's shareholders, unless securities representing more than fifty percent (50%) of the total combined voting power of the voting securities of the successor corporation are immediately thereafter beneficially owned, directly or indirectly and in substantially the same proportion, by the persons who beneficially owned the Company's outstanding voting securities immediately prior to such transaction, or

(i) a shareholder-approved sale, transfer or other disposition of all or substantially all of the Company's assets in liquidation or dissolution of the Company,
or

(ii) the acquisition, directly or indirectly by any person or related group of persons (other than the Company or a person that directly or indirectly controls, is controlled by, or is under common control with, the Company), of beneficial ownership (within the meaning of Rule 13d-3 of the 1934 Act) of securities possessing more than fifty percent (50%) of the total combined voting power of the Company's outstanding securities pursuant to a tender or exchange offer made directly to the Company's shareholders.

F. **Code** shall mean the Internal Revenue Code of 1986, as amended.

G. **Common Shares** shall mean the Company's common shares.

H. **Company** shall mean Alpha and Omega Semiconductor Limited, a company incorporated and existing under the laws of the Islands of Bermuda, and any successor corporation to all or substantially all of the assets or voting stock of Alpha and Omega Semiconductor Limited which shall by appropriate action assume this option

I. **Fair Market Value** per Common Share on any relevant date shall be the closing price per Common Share on the date in question, as such price is reported by the Financial Industry Regulatory Authority (if traded at the time on the Nasdaq Global or Global Select Market) or as officially quoted in the composite tape of transactions on any other Stock Exchange on which the Common Shares are then traded. If there is no closing selling price for the Common Shares on the date in question, then the Fair Market Value shall be the closing selling price on the last preceding date for which such quotation exists.

J. **1934 Act** shall mean the Securities Exchange Act of 1934, as amended from time to time.

K. **Participant** shall mean the person to whom the Award is made pursuant to the Agreement.

L. **Permanent Disability or Permanently Disabled** shall mean the inability of the Participant to perform his or her usual duties as a Board member by reason of any medically determinable physical or mental impairment expected to result in death or to be of continuous duration of twelve (12) months or more.

M. **Plan** shall mean the Company's 2009 Share Option/Share Issuance Plan, as amended and restated from time to time.

N. **Plan Administrator** shall mean either the Board or a committee of the Board acting in its capacity as administrator of the Plan.

O. **Stock Exchange** shall mean the American Stock Exchange the American Stock Exchange, the Nasdaq Global or Global Select Market or the New York Stock Exchange.

P. **Withholding Taxes** shall mean the federal, state, local and foreign income taxes and the employee portion of the federal, state, local and foreign employment (or equivalent) taxes required to be withheld by the Company in connection with the issuance of the Common Shares which vest under the Award.

**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 9, 2014

/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 9, 2014

/s/ Yifan Liang

Yifan Liang
Interim 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, 2014 (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 9, 2014

/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, interim 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, 2014 (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 9, 2014

/s/ Yifan Liang

Yifan Liang

Interim Chief Financial Officer and Corporate Secretary