

**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 September 30, 2021

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit 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, smaller reporting company or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	☐	Accelerated filer	☒	Non-accelerated filer	☐
				(Do not check if a smaller reporting company)	
Smaller reporting company	☐	Emerging growth company	☐		

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Shares	AOSL	The NASDAQ Global Select Market

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 October 22, 2021: 26,377,519

Alpha and Omega Semiconductor Limited
Form 10-Q
Fiscal First Quarter Ended September 30, 2021
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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)

	September 30, 2021	June 30, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 252,453	\$ 202,412
Restricted cash	342	233
Accounts receivable, net	39,317	35,789
Inventories	163,437	154,293
Other current assets	17,518	14,595
Total current assets	473,067	407,322
Property, plant and equipment, net	441,279	436,977
Operating lease right-of-use assets, net	33,437	34,660
Intangible assets, net	12,570	13,410
Deferred income tax assets	5,216	5,167
Restricted cash - long-term	2,168	2,168
Other long-term assets	23,941	18,869
Total assets	\$ 991,678	\$ 918,573
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 81,681	\$ 80,699
Accrued liabilities	92,207	69,494
Income taxes payable	3,004	2,604
Short-term debt	57,955	58,030
Finance lease liabilities	16,722	16,724
Operating lease liabilities	5,537	5,679
Total current liabilities	257,106	233,230
Long-term debt	75,991	77,990
Income taxes payable - long-term	1,332	1,319
Deferred income tax liabilities	3,136	2,448
Finance lease liabilities - long-term	8,516	12,698
Operating lease liabilities - long-term	29,342	30,440
Other long-term liabilities	74,265	44,123
Total liabilities	449,688	402,248
Commitments and contingencies (Note 10)		
Equity:		
Preferred shares, par value \$0.002 per share:		
Authorized: 10,000 shares; issued and outstanding: none at September 30, 2021 and June 30, 2021	—	—
Common shares, par value \$0.002 per share:		
Authorized: 100,000 shares; issued and outstanding: 32,996 shares and 26,373 shares, respectively at September 30, 2021 and 32,975 shares and 26,350 shares, respectively at June 30, 2021	66	66
Treasury shares at cost: 6,623 shares at September 30, 2021 and 6,625 shares at June 30, 2021	(66,052)	(66,064)
Additional paid-in capital	264,321	259,993
Accumulated other comprehensive income	2,229	2,315
Retained earnings	200,307	176,895
Total Alpha and Omega Semiconductor Limited shareholder's equity	400,871	373,205
Noncontrolling interest	141,119	143,120
Total equity	541,990	516,325
Total liabilities and equity	\$ 991,678	\$ 918,573

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 September 30,	
	2021	2020
Revenue	\$ 187,035	\$ 151,551
Cost of goods sold	122,468	109,028
Gross profit	64,567	42,523
Operating expenses		
Research and development	17,812	14,691
Selling, general and administrative	21,806	17,505
Total operating expenses	39,618	32,196
Operating income	24,949	10,327
Interest expense and other income (loss), net	(2,192)	(549)
Income before income taxes	22,757	9,778
Income tax expense	1,320	1,011
Net income including noncontrolling interest	21,437	8,767
Net loss attributable to noncontrolling interest	(1,987)	(807)
Net income attributable to Alpha and Omega Semiconductor Limited	\$ 23,424	\$ 9,574
Net income per common share attributable to Alpha and Omega Semiconductor Limited		
Basic	\$ 0.89	\$ 0.38
Diluted	\$ 0.85	\$ 0.36
Weighted average number of common shares attributable to Alpha and Omega Semiconductor Limited used to compute net income per share		
Basic	26,365	25,340
Diluted	27,638	26,314

See accompanying notes to these condensed consolidated financial statements.

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

	Three Months Ended September 30,	
	2021	2020
Net income including noncontrolling interest	\$ 21,437	\$ 8,767
Other comprehensive income (loss), net of tax		
Foreign currency translation adjustment	(100)	5,703
Comprehensive income	21,337	14,470
Less: Noncontrolling interest	(2,001)	1,915
Comprehensive income attributable to Alpha and Omega Semiconductor Limited	<u>\$ 23,338</u>	<u>\$ 12,555</u>

See accompanying notes to these condensed consolidated financial statements.

ALPHA AND OMEGA SEMICONDUCTOR LIMITED
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Unaudited, in thousands)

	Common Shares	Treasury Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total AOS Shareholders' Equity	Noncontrolling Interest	Total Equity
Balance, June 30, 2020	\$ 64	\$ (66,184)	\$ 246,103	\$ (5,127)	\$ 118,833	\$ 293,689	\$ 138,199	\$ 431,888
Reissuance of treasury stock upon exercise of common stock options and release of RSUs	—	13	—	—	(13)	—	—	—
Withholding tax on restricted stock units	—	—	(412)	—	—	(412)	—	(412)
Share-based compensation	—	—	2,276	—	—	2,276	—	2,276
Restricted stock units settlement in connection with service	—	—	1,000	—	—	1,000	—	1,000
Net income (loss) including noncontrolling interest	—	—	—	—	9,574	9,574	(807)	8,767
Foreign currency translation adjustment	—	—	—	2,981	—	2,981	2,722	5,703
Balance, September 30, 2020	<u>\$ 64</u>	<u>\$ (66,171)</u>	<u>\$ 248,967</u>	<u>\$ (2,146)</u>	<u>\$ 128,394</u>	<u>\$ 309,108</u>	<u>\$ 140,114</u>	<u>\$ 449,222</u>
	Common Shares	Treasury Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total AOS Shareholders' Equity	Noncontrolling Interest	Total Equity
Balance, June 30, 2021	\$ 66	\$ (66,064)	\$ 259,993	\$ 2,315	\$ 176,895	\$ 373,205	\$ 143,120	\$ 516,325
Reissuance of treasury stock upon exercise of common stock options and release of RSUs	—	12	—	—	(12)	—	—	—
Withholding tax on restricted stock units	—	—	(174)	—	—	(174)	—	(174)
Share-based compensation	—	—	4,502	—	—	4,502	—	4,502
Net income (loss) including noncontrolling interest	—	—	—	—	23,424	23,424	(1,987)	21,437
Foreign currency translation adjustment	—	—	—	(86)	—	(86)	(14)	(100)
Balance, September 30, 2021	<u>\$ 66</u>	<u>\$ (66,052)</u>	<u>\$ 264,321</u>	<u>\$ 2,229</u>	<u>\$ 200,307</u>	<u>\$ 400,871</u>	<u>\$ 141,119</u>	<u>\$ 541,990</u>

See accompanying notes to these condensed consolidated financial statements.

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

	Three Months Ended September 30,	
	2021	2020
Cash flows from operating activities		
Net income including noncontrolling interest	\$ 21,437	\$ 8,767
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	13,722	12,489
Share-based compensation expense	4,635	2,876
Deferred income taxes, net	638	17
Loss on disposal of property and equipment	28	47
Changes in operating assets and liabilities:		
Accounts receivable	(3,528)	(13,044)
Inventories	(9,145)	(2,172)
Other current and long-term assets	(2,561)	(1,011)
Accounts payable	2,081	1,930
Income taxes payable	414	749
Accrued and other liabilities	52,886	(800)
Net cash provided by operating activities	80,607	9,848
Cash flows from investing activities		
Purchases of property and equipment excluding JV Company	(16,642)	(7,944)
Purchases of property and equipment in JV Company	(8,351)	(3,393)
Government grant related to equipment	1,082	—
Net cash used in investing activities	(23,911)	(11,337)
Cash flows from financing activities		
Withholding tax on restricted stock units	(174)	(412)
Proceeds from borrowings	7,550	11,300
Repayments of borrowings	(9,735)	(11,085)
Principal payments on finance leases	(4,176)	(3,989)
Net cash used in financing activities	(6,535)	(4,186)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(11)	1,997
Net increase (decrease) in cash, cash equivalents and restricted cash	50,150	(3,678)
Cash, cash equivalents and restricted cash at beginning of period	204,813	162,704
Cash, cash equivalents and restricted cash at end of period	\$ 254,963	\$ 159,026
Supplemental disclosures of non-cash investing and financing information:		
Property and equipment purchased but not yet paid	\$ 11,285	\$ 6,877

See accompanying notes to these condensed consolidated financial statements.

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

1. The Company and Significant Accounting Policies

The Company

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

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, 2021. All significant intercompany balances and transactions have been eliminated in consolidation. In the opinion of management, all adjustments (consisting of normal recurring adjustments and accruals) considered necessary for a fair presentation of the results of operations for the periods presented have been included in the interim periods. Operating results for the three months ended September 30, 2021 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2022 or any other interim period. The consolidated balance sheet at June 30, 2021 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, 2021.

Reclassification

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

Joint Venture

On March 29, 2016, the Company entered into a joint venture contract (the “JV Agreement”) with two investment funds owned by the Municipality of Chongqing (the “Chongqing Funds”), pursuant to which the Company and the Chongqing Funds formed a joint venture, (the “JV Company”), for the purpose of constructing and operating a power semiconductor packaging, testing and 12-inch wafer fabrication facility (“Fab”) in the LiangJiang New Area of Chongqing, China (the “JV Transaction”). The Fab is being built in phases. As of September 30, 2021, the Company owned 51%, and the Chongqing Funds owned 49% of the equity interest in the JV Company. The Joint Venture is accounted under the provisions of the consolidation guidance since the Company has controlling financial interest. If both parties agree that the termination of the JV Company is the best interest of each party or the JV Company is bankrupt or insolvent where either party may terminate early, after paying the debts of the JV Company, the remaining assets of the JV Company shall be paid to the Chongqing Funds to cover the principal of its total paid-in contributions plus interest at 10% simple annual rate prior to distributing the balance of the JV Company’s assets to the Company. The JV Company has reached its targeted production in assembly and testing and completed the ramp on its Phase I of the 12-inch wafer fabrication.

Certain Significant Risks and Uncertainties Related to Outbreak of Coronavirus Disease 2019 (“COVID-19”)

The COVID-19 pandemic has had and continues to have a negative impact on business and economic activities across the globe. As a result of the COVID-19 pandemic and the global economic downturn and changing consumer behaviors due to various restrictions imposed by governments, the Company has experienced shifting market trends, including an increasing demand in the markets for notebooks, PCs and gaming devices and decreasing demand for mobile phone and industrial products, as more consumers are staying at and working from home. While the Company has recently benefited from the increasing demand of PC related products, there is no guarantee that this trend will continue, and such increasing demand may

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

discontinue or decline as government authorities relax and terminate COVID-19 related restrictions and consumer behaviors change. Furthermore, as the COVID-19 pandemic continues and global economic downturn and high unemployment persists, consumer spending may slow down substantially, in which case the Company may experience a significant decline of customer orders for its products, including those designed for PC-related applications, and such decline will adversely affect its financial conditions and results of operations. The full extent of the future impact of the COVID-19 pandemic on the Company's operational and financial performance is currently uncertain and will depend on many factors outside the Company's control, including, without limitation, the timing, extent, trajectory and duration of the pandemic; the availability, distribution and effectiveness of vaccines; the spread of new variants of COVID-19; the continued or renewed imposition of protective public safety measures; the continuing disruption of global supply chain affecting the semiconductor industry; and the impact of the pandemic on the global economy and demand for consumer products.

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, leases, share-based compensation, recoverability of and useful lives for property, plant and equipment and intangible assets, as well as the economic implications of the COVID-19 pandemic.

Leases

The Company determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use ("ROU") assets, current operating lease liabilities and long-term operating lease liabilities on the Company's condensed consolidated balance sheets. Finance leases are included in property, plant and equipment, finance lease liabilities and long-term finance leases liabilities on the condensed consolidated balance sheets.

Operating lease ROU assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. The Company uses an estimate of its incremental borrowing rate based on the information available at the lease commencement date. The operating lease ROU assets also include any lease payments made and exclude lease incentives. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise such options. Operating lease expense is generally recognized on a straight-line basis over the lease term. Variable lease payments are expensed as incurred and are not included within the operating lease ROU asset and lease liability calculation. The Company does not record leases on the condensed consolidated balance sheet with a term of one year or less. The Company elected to combine its lease and non-lease components as a single lease component for all asset classes.

Revenue recognition

The Company determines revenue recognition through the following steps: (1) identification of the contract with a customer; (2) identification of the performance obligations in the contract; (3) determination of the transaction price; (4) allocation of the transaction price to the performance obligations in the contract; and (5) recognition of revenue when, or as, a performance obligation is satisfied. The Company recognizes product revenue at a point in time when product is shipped to the customer, net of estimated stock rotation returns and price adjustments that it expects to provide to certain distributors. The Company presents revenue net of sales taxes and any similar assessments. Our standard payment terms range from 30 to 90 days.

The Company sells its products primarily to distributors, who in turn sell the products globally to various end customers. The Company allows stock rotation returns from certain distributors. Stock rotation returns are governed by contract and are limited to a specified percentage of the monetary value of products purchased by distributors during a specified period. The Company records an allowance for stock rotation returns based on historical returns and individual distributor agreements. The Company also provides special pricing to certain distributors, primarily based on volume, to encourage resale of the Company's products. Allowance for price adjustments is recorded against accounts receivable and the provision for stock rotation rights is included in accrued liabilities on the condensed consolidated balance sheets.

The Company's performance obligations relate to contracts with a duration of less than one year. The Company elected to apply the practical expedient provided in ASC 606, "Revenue from Contracts with Customers". Therefore, the Company is not

ALPHA AND OMEGA SEMICONDUCTOR LIMITED
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(Unaudited)

required to disclose the aggregate amount of transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period.

The Company recognizes the incremental direct costs of obtaining a contract, which consist of sales commissions, when control over the products they relate to transfers to the customer. Applying the practical expedient, the Company recognizes commissions as expense when incurred, as the amortization period of the commission asset the Company would have otherwise recognized is less than one year.

Packaging and testing services revenue is recognized at a point in time upon shipment of serviced products to the customer.

Share-based Compensation Expense

The Company maintains an equity-settled, share-based compensation plan to grant restricted share units and stock options. The Company recognizes expense related to share-based compensation awards that are ultimately expected to vest based on estimated fair values on the date of grant. The fair value of restricted share units is based on the fair value of the Company's common share on the date of grant. For restricted stock awards subject to market conditions, the fair value of each restricted stock award is estimated at the date of grant using the Monte-Carlo pricing model. The fair value of stock options is estimated on the date of grant using the Black-Scholes option valuation model. Share-based compensation expense is recognized on the accelerated attribution basis over the requisite service period of the award, which generally equals the vesting period. The Employee Share Purchase Plan (the "ESPP") is accounted for at fair value on the date of grant using the Black-Scholes option valuation model.

Restricted Cash

As a condition of certain loan agreement, the Company is required to keep a compensating balance at the issuing bank (see Note 5). In addition, the Company maintains restricted cash in connection with cash balances temporarily restricted for regular business operations, including the possibility of a dispute with a vendor. These balances have been excluded from the Company's cash and cash equivalents balance and are classified as restricted cash in the Company's condensed consolidated balance sheets. As of September 30, 2021 and June 30, 2021, the amount of restricted cash was \$2.5 million and \$2.4 million, respectively.

Fair Value of Financial Instruments

The fair value of cash equivalents is 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, credit risk and terms of the debts.

Government Grants

The Company occasionally receives government grants that provide financial assistance for certain eligible expenditures in China. These grants include reimbursements on interest expense on bank borrowings, payroll tax credits, credit for property, plant and equipment in a particular geographical location, employment credits, as well as business expansion credits. Government grants are not recognized until there is reasonable assurance that the Company will comply with the conditions attaching to it, and that the grant will be received. The Company records such grants either as a reduction of the related expense, a reduction of the cost of the related asset, or as other income depending upon the nature of the grant. As a result of such grants, during the three months ended September 30, 2021, the Company reduced the carrying value of property, plant and equipment by \$1.1 million. During the three months ended September 30, 2020, the Company reduced interest expense by \$0.8 million, and operating expenses by \$1.9 million, respectively.

Long-lived Assets

The Company evaluates its long-lived assets for impairment whenever events or changes indicate that the carrying amount of such assets may not be recoverable. Due to the COVID-19 pandemic, the Company assessed the changes in circumstances that occurred during the March and June 2020 quarters. These factors included continued operating losses, a decrease in the

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

Company's share price in February and March of 2020, which reduced its market capitalization, expectation of lower business growth for the coming quarters, increased and prolonged economic and regulatory uncertainty in the global economies, and the expectation of higher supply chain costs and increased competition. Therefore, the Company performed a recoverability test by comparing the sum of the estimated undiscounted future cash flows of its long-lived assets to their carrying amount as of June 30, 2020. Some of the more significant assumptions used in the estimated future cash flows involve net sales, cost of goods sold, operating expenses, working capital, capital expenditures, income tax rates, long-term growth rates that appropriately reflect the risks inherent in the future cash flow stream and terminal value. The Company selected the assumptions used in the financial forecasts by referencing to historical data, supplemented by current and anticipated market conditions, estimated product growth rates and management's plans. These estimated future cash flows were consistent with those the Company uses in its internal planning. The result of the recoverability test indicated that the sum of the expected future cash flows (undiscounted and without interest charges) was greater than the carrying amount of the long-lived assets. Therefore, the Company concluded that the carrying amount of the long-lived assets is recoverable as of June 30, 2021.

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

Recently Issued Accounting Standards not yet adopted

In August 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2020-06, Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity, which, among other things, provides guidance on how to account for contracts on an entity's own equity. This ASU simplifies the accounting for certain financial instruments with characteristics of liabilities and equity. Specifically, the ASU eliminated the need for the Company to assess whether a contract on the entity's own equity (1) permits settlement in unregistered shares, (2) whether counterparty rights rank higher than shareholder's rights, and (3) whether collateral is required. In addition, the ASU requires incremental disclosure related to contracts on the entity's own equity and clarifies the treatment of certain financial instruments accounted for under this ASU on earnings per share. For public business entities, the ASU is effective for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years. The Company does not expect the adoption of this guidance will have a material impact on its consolidated financial position, results of operations or cash flows.

Recently Adopted Accounting Standards

In January 2020, the FASB issued ASU No. 2020-01, "Investments - Equity Securities (Topic 321), Investments - Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815) - Clarifying the Interactions between Topic 321, Topic 323, and Topic 815." The ASU is based on a consensus of the Emerging Issues Task Force and is expected to increase comparability in accounting for these transactions. ASU 2016-01 made targeted improvements to accounting for financial instruments, including providing an entity the ability to measure certain equity securities without a readily determinable fair value at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. Among other topics, the amendments clarify that an entity should consider observable transactions that require it to either apply or discontinue the equity method of accounting. ASU 2020-01 had no material impact on the Company's consolidated financial statements.

In December 2019, the FASB issued ASU No. 2019-12 "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes ("ASU 2019-12") by removing certain exceptions to the general principles. The Company adopted ASU 2019-12 as of July 1, 2021. ASU 2019-12 had no material impact on the Company's consolidated financial statements.

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

2. Net Income Per Common Share Attributable to Alpha and Omega Semiconductor Limited

The following table presents the calculation of basic and diluted net income per share attributable to common shareholders:

	Three Months Ended September 30,	
	2021	2020
	(in thousands, except per share data)	
Numerator:		
Net income attributable to Alpha and Omega Semiconductor Limited	\$ 23,424	\$ 9,574
Denominator:		
Basic:		
Weighted average number of common shares used to compute basic net income per share	26,365	25,340
Diluted:		
Weighted average number of common shares used to compute basic net income per share	26,365	25,340
Effect of potentially dilutive securities:		
Stock options, RSUs and ESPP shares	1,273	974
Weighted average number of common shares used to compute diluted net income per share	27,638	26,314
Net income per share attributable to Alpha and Omega Semiconductor Limited:		
Basic	\$ 0.89	\$ 0.38
Diluted	\$ 0.85	\$ 0.36

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

	Three Months Ended September 30,	
	2021	2020
	(in thousands)	
Employee stock options and RSUs	510	124
ESPP	33	233
Total potential dilutive securities	543	357

3. Concentration of Credit Risk and Significant Customers

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

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

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

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Percentage of revenue	Three Months Ended September 30,	
	2021	2020
Customer A	27.4 %	28.8 %
Customer B	36.6 %	33.1 %

Percentage of accounts receivable	September 30,	June 30,
	2021	2021
Customer A	16.0 %	12.4 %
Customer B	17.3 %	22.1 %
Customer C	18.2 %	21.9 %

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4. Balance Sheet Components

Accounts receivable, net:

	September 30, 2021	June 30, 2021
	(in thousands)	
Accounts receivable	\$ 53,017	\$ 48,234
Less: Allowance for price adjustments	(13,670)	(12,415)
Less: Allowance for doubtful accounts	(30)	(30)
Accounts receivable, net	<u>\$ 39,317</u>	<u>\$ 35,789</u>

Inventories:

	September 30, 2021	June 30, 2021
	(in thousands)	
Raw materials	\$ 71,881	\$ 68,900
Work in-process	72,969	68,824
Finished goods	18,587	16,569
	<u>\$ 163,437</u>	<u>\$ 154,293</u>

Other current assets:

	September 30, 2021	June 30, 2021
	(in thousands)	
VAT receivable	\$ 2,542	\$ 1,539
Other prepaid expenses	2,768	1,465
Prepaid insurance	3,453	2,615
Prepaid maintenance	2,251	1,670
Prepayment to supplier	1,434	2,540
Prepaid income tax	2,233	2,221
Interest receivable	2,206	2,207
Customs deposit	561	270
Other receivables	70	68
	<u>\$ 17,518</u>	<u>\$ 14,595</u>

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Property, plant and equipment, net:

	September 30, 2021	June 30, 2021
	(in thousands)	
Land	\$ 4,877	\$ 4,877
Building	71,576	71,454
Manufacturing machinery and equipment	519,732	515,320
Equipment and tooling	27,500	27,017
Computer equipment and software	41,949	41,518
Office furniture and equipment	3,941	3,814
Leasehold improvements	75,178	74,733
Land use rights	9,317	9,319
	754,070	748,052
Less: accumulated depreciation	(360,510)	(348,749)
	393,560	399,303
Equipment and construction in progress	47,719	37,674
Property, plant and equipment, net	\$ 441,279	\$ 436,977

Intangible assets, net:

	September 30, 2021	June 30, 2021
	(in thousands)	
Patents and technology rights	\$ 18,037	\$ 18,037
Trade name	268	268
Customer relationships	1,150	1,150
	19,455	19,455
Less: accumulated amortization	(7,154)	(6,314)
	12,301	13,141
Goodwill	269	269
Intangible assets, net	\$ 12,570	\$ 13,410

Estimated future minimum amortization expense of intangible assets is as follows (in thousands):

Year ending June 30,	
2022 (Remaining)	\$ 2,520
2023	3,286
2024	3,249
2025	3,246
	\$ 12,301

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Other long-term assets:

	September 30, 2021	June 30, 2021
	(in thousands)	
Prepayments for property and equipment	\$ 20,099	\$ 14,882
Investment in a privately held company	100	100
Customs deposit	1,146	1,120
Other long-term deposits	926	927
Office leases deposits	1,022	1,100
Other	648	740
	<u>\$ 23,941</u>	<u>\$ 18,869</u>

Accrued liabilities:

	September 30, 2021	June 30, 2021
	(in thousands)	
Accrued compensation and benefits	\$ 43,775	\$ 32,756
Warranty accrual	2,824	2,795
Stock rotation accrual	3,782	3,917
Accrued professional fees	3,467	3,017
Accrued inventory	1,204	1,138
Accrued facilities related expenses	2,751	2,536
Accrued property, plant and equipment	8,473	8,688
Other accrued expenses	6,524	6,793
Customer deposit	17,137	7,139
ESPP payable	2,270	715
	<u>\$ 92,207</u>	<u>\$ 69,494</u>

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

	Three Months Ended September 30,	
	2021	2020
	(in thousands)	
Beginning balance	\$ 2,795	\$ 709
Additions	139	71
Utilization	(110)	(73)
Ending balance	<u>\$ 2,824</u>	<u>\$ 707</u>

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

	Three Months Ended September 30,	
	2021	2020
	(in thousands)	
Beginning balance	\$ 3,917	\$ 3,358
Additions	701	3,016
Utilization	(836)	(2,631)
Ending balance	<u>\$ 3,782</u>	<u>\$ 3,743</u>

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Other long-term liabilities:

	September 30, 2021	June 30, 2021
	(in thousands)	
Deferred payroll taxes	\$ 1,219	\$ 1,219
Customer deposits	72,592	42,000
Other	454	904
Other long-term liabilities	<u>\$ 74,265</u>	<u>\$ 44,123</u>

Customer deposits are payments received from customers for securing future product shipments. As of September 30, 2021, \$57.0 million were from Customer A and Customer B, and \$15.6 million were from other customers. As of June 30, 2021, \$42.0 million were from Customer A and Customer B.

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5. Bank Borrowings

Short-term borrowings

On June 29, 2021, the JV Company entered into a one-year loan agreement with China CITIC Bank in China to borrow a maximum of \$7.7 million. Interest payments are due on the 20th of each quarter commencing on September 20, 2021, and the entire principal is due on June 29, 2022. As of September 30, 2021, the outstanding balance of this loan was \$7.7 million at an interest rate of 3.49% per annum.

On April 19, 2021, the JV Company entered into a loan agreement with China Everbright Bank in China to borrow a maximum of Chinese Renminbi (“RMB” 100 million. The borrowing can be in RMB or U.S. Dollar (“USD”). The loan consists of RMB 50 million for working capital borrowings in Chinese yuan and RMB 50 million for borrowing in USD. The loan is collateralized by eligible accounts receivable. On April 19, 2021, the JV Company borrowed RMB 50.0 million, or \$7.7 million based on the currency exchange rate between RMB and USD on April 19, 2021, at an interest rate of 5.1% per annum. The interest payments are due quarterly with the entire principal due no later than May 19, 2022. On June 16, 2021 and June 24, 2021, the JV Company borrowed \$4.2 million and \$3.5 million at interest rate of 2.7% per annum, and repaid in full during the quarter ended September 30, 2021. On August 17, 2021 and September 22, 2021, the JV Company also borrowed \$4.2 million and \$3.4 million at interest rate of 2.7% per annum, with principal due on November 9, 2021 and December 12, 2021, respectively. As of September 30, 2021, the total outstanding balance of these loans was \$15.3 million.

On November 13, 2020, the JV Company entered into a one-year loan agreement with China Merchant Bank in China. The JV Company can borrow up to RMB 50.0 million, or \$7.6 million, based on the currency exchange rate between RMB and U.S. Dollar on November 13, 2020. The loan's interest rates are based on the China one-year loan prime rate (“LPR”) plus 1.4% per annum. Interest payments are due quarterly with the entire principal due not later than November 19, 2021. During the three months ended December 31, 2020, the JV Company borrowed RMB 50.0 million, or \$7.6 million, at an interest rate of 5.25% per annum. As of September 30, 2021, the outstanding balance of this loan was \$7.7 million.

On October 2019, the Company's subsidiary in China entered into a line of credit facility with Bank of Communications Limited in China. This line of credit matures on February 14, 2021 and is based on the China Base Rate multiplied by 1.05, or 4.99% on October 31, 2019. The purpose of the credit facility is to provide short-term borrowings. The Company could borrow up to approximately RMB 60.0 million or \$8.5 million based on the currency exchange rate between the RMB and the U.S. Dollar on October 31, 2019. In September 2021, this line of credit was renewed with maximum borrowings up to RMB 140.0 million with the same terms and a maturity date of September 18, 2022. As of September 30, 2021, there was no outstanding balance under the loan.

On November 16, 2018, the Company's subsidiary in China entered into a line of credit facility with Industrial and Commercial Bank of China. The purpose of the credit facility was to provide short-term borrowings. The Company could borrow up to approximately RMB 72.0 million or \$10.3 million based on currency exchange rate between RMB and U.S. Dollar on November 16, 2018. The RMB 72.0 million consists of RMB 27.0 million for trade borrowings with a maturity date of December 31, 2021, and RMB 45.0 million for working capital borrowings or trade borrowings with a maturity date of September 13, 2022. As of September 30, 2021, there was no outstanding balance under the loan.

Accounts Receivable Factoring Agreement

On August 9, 2019, one of the Company's wholly-owned subsidiaries (the “Borrower”) entered into a factoring agreement with the Hongkong and Shanghai Banking Corporation Limited (“HSBC”), whereby the Borrower assigns certain of its accounts receivable with recourse. This factoring agreement allows the Borrower to borrow up to 70% of the net amount of its eligible accounts receivable of the Borrower with a maximum amount of \$30.0 million. The interest rate is based on one month London Interbank Offered Rate (“LIBOR”) plus 1.75% per annum. The Company is the guarantor for this agreement. The Company is accounting for this transaction as a secured borrowing under the Transfers and Servicing of Financial Assets guidance. In addition, any cash held in the restricted bank account controlled by HSBC has a legal right of offset against the borrowing. This agreement, with certain financial covenants required, has no expiration date. On August 11, 2021, the Borrower signed an agreement with HSBC to decrease the borrowing maximum amount to \$8.0 million with certain financial covenants required. Other terms remain the same. As of September 30, 2021, the Borrower was in compliance with these covenants. As of September 30, 2021, there was no outstanding balance and the Company had unused credit of approximately \$8.0 million.

Credit Facilities

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On May 9, 2018 (the “Effective Date”), the JV Company entered into a lease finance agreement and a security agreement (the “Agreements”) with YinHai Leasing Company and China Import/Export Bank (the “Lenders”). Pursuant to the Agreements, the Lenders agreed to provide an aggregate of RMB 400.0 million, or \$62.8 million based on the currency exchange rate between RMB and U.S. Dollar on the Effective Date, of financing to the JV Company (the “Lease Financing”). In exchange for the Lease Financing, the JV Company agreed to transfer title of its assembly and testing equipment to the Lenders, and the Lenders leased such equipment to the JV Company under a five-year lease arrangement, pursuant to which the JV Company makes quarterly lease payments to the Lenders consisting of principal and interest based on a repayment schedule mutually agreed by the parties. The interest under the Lease Financing is accrued based on the China Base Rate multiplied by 1.15, or 5.4625% on the Effective Date. Under the Agreements, at the end of the five-year lease term, the Lenders agree to sell such equipment back to the JV Company for a nominal amount (RMB 1). The JV Company’s obligations under the Lease Financing are secured by the land and building owned by the JV Company (the “Collateral”). The proceeds from the Lease Financing were used primarily for the acquisition and installation of the 12-inch fabrication equipment and other expenses of the JV Company relating to the completion of the fabrication facility located in Chongqing. The Agreements contain customary representation, warranties and covenants, including restrictions on the transfer of the Collateral. The Agreements also contain customary events of default, including but not limited to, failure to make payments and breach of material terms under the Agreements. The Agreements include certain customary closing conditions, including the payment of deposit by the JV Company. On June 28, 2020, the parties entered into a modification to this agreement, pursuant to which the interest rate was changed to be the five-year loan prime rate in China plus 0.8125%, or 5.4625%. Other terms of this agreement remain the same. As of September 30, 2021, the outstanding balance of the Lease Financing of 163.0 million RMB (equivalent of \$25.2 million based on the currency exchange rate as of September 30, 2021) was recorded under short-term and long-term finance lease liabilities on balance sheets and summarized in the future minimum lease payment table for finance lease liabilities in Note 6.

Long-term debt

On August 18, 2021, Jireh entered into a term loan agreement with a financial institution (the “Bank”) in an amount up to \$45.0 million for the purpose of expanding and upgrading the Company’s fabrication facility located in Oregon. The obligation under the loan agreement is secured by substantially all assets of Jireh and guaranteed by the Company. The agreement has a 5.5 year term and matures on February 16, 2027. Jireh is required to make consecutive quarterly payments of principal and interest. The loan accrues interest based on adjusted LIBOR plus the applicable margin based on the outstanding balance of the loan. This agreement contains customary restrictive covenants and includes certain financial covenants that require the Company to maintain. As of September 30, 2021, there was no outstanding balance under the loan.

On April 26, 2020, the JV Company entered into a loan agreement with China Development Bank, Agricultural Bank of China, China Merchants Bank and Chongqing Rural Commercial Bank (collectively, the “Banks”) in the aggregate principal amount of RMB 250 million (approximately \$35.7 million based on the currency exchange rate between RMB and U.S. Dollar on April 26, 2020). The obligation under the loan agreement is secured by certain assets of the JV Company. The obligation under the loan agreement is secured by certain assets of the JV Company with a carrying value of \$111.7 million as of September 30, 2021. The JV Company is required to make consecutive semi-annual payments of principal until December 8, 2024. Interest payments are due on March 20, June 20, September 20 and December 20 of each year based on the LPR plus 1.3%. The JV Company drew down RMB 250.0 million (approximately \$35.3 million based on the currency exchange rate between RMB and U.S. Dollar on June 30, 2020) in April 2020. As of September 30, 2021, the outstanding balance of the loan was \$34.1 million.

In December 2019, the JV Company entered into a loan agreement with China Development Bank in the amount of \$24.0 million. The obligation under the loan agreement is secured by certain assets of the JV Company with a carrying value of \$111.7 million as of September 30, 2021. The JV Company is required to make consecutive semi-annual payments of principal until December 8, 2024. The interest is accrued based on the LIBOR rate plus 2.8%. The interest is required to be paid on March 21 and September 21 each year. As of September 30, 2021, the outstanding balance of the loan was \$19.2 million.

On March 12, 2019, the JV Company entered into a loan agreement with The Export-Import Bank of China in the aggregate principal amount of RMB 200.0 million (approximately \$29.8 million based on currency exchange rate between RMB and U.S. Dollar on March 31, 2019). The loan will mature on February 20, 2025. The JV Company drew down RMB 190.0 million and RMB 10.0 million in March 2019 and December 2019, respectively. The loan withdraw window expired on February 28, 2020. The interest is accrued based on the China Base Rate multiplied by 1.1, or 5.39%. The loan requires quarterly interest payments. The principal payments are required to be paid every 6 months over the term of loan commencing in October 2019. This loan is secured by the buildings and certain equipment owned by the JV Company with a carrying value of \$88.1 million as of September 30, 2021. As a condition of the loan arrangement, 14.0 million RMB (approximately \$2.0

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million) of cash is held as restricted cash by the JV Company as a compensating balance at the bank until the principal is paid. On June 24, 2020, a modification of this loan was signed, pursuant to which the interest rate was changed to be based on the five-year loan prime rate in China plus 0.74%, or 5.39%. Other terms of this loan remain the same. As of September 30, 2021, the outstanding balance of the loan was 184.0 million RMB (equivalent of \$28.5 million based on the currency exchange rate as of September 30, 2021).

On May 1, 2018, Jireh entered into a loan agreement with the Bank that provided a term loan in the amount of \$17.8 million. The obligation under the loan agreement is secured by certain real estate assets of Jireh and guaranteed by the Company. The loan has a five-year term and matures on June 1, 2023. Beginning June 1, 2018, Jireh made consecutive monthly payments of principal and interest to the Bank. The outstanding principal accrues interest at a fixed rate of 5.04% per annum on the basis of a 360-day year. 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. In August 2021, Jireh signed an amendment of this loan with the Bank to modify the financial covenants requirement to align with the new term loan agreement entered into on August 18, 2021 discussed above. The amendment was accounted for as a debt modification and no gain or loss was recognized. The Company was in compliance with these covenants as of September 30, 2021. As of September 30, 2021, the outstanding balance of the term loan was \$14.8 million.

On August 15, 2017, Jireh entered into a credit agreement with the Bank that provided a term loan in an amount up to \$30.0 million for the purpose of purchasing certain equipment for the Company's fabrication facility located in Oregon. The obligation under the credit agreement is secured by substantially all assets of Jireh and guaranteed by the Company. The credit agreement has a five-year term and matures on August 15, 2022. In January 2018 and July 2018, Jireh drew down the loan in the amount of \$13.2 million and \$16.7 million, respectively. Beginning in October 2018, Jireh is required to pay to the Bank on each payment date, the outstanding principal amount of the loan in monthly installments. The loan accrues interest based on an adjusted LIBOR as defined in the credit agreement, plus a specified applicable margin in the range of 1.75% to 2.25%, based on the outstanding balance of the loan. The credit agreement contains customary restrictive covenants and includes certain financial covenants that require the Company to maintain, on a consolidated basis, specified financial ratios and fixed charge coverage ratio. In August 2021, Jireh signed an amendment of this loan with the Bank to modify the financial covenants requirement to align with the new term loan agreement entered into on August 18, 2021 discussed above. The amendment was accounted for as a debt modification and no gain or loss was recognized. The Company was in compliance with these covenants as of September 30, 2021. As of September 30, 2021, the outstanding balance of the term loan was \$7.5 million.

Maturities of short-term debt and long-term debt were as follows (in thousands):

Year ending June 30,			
2022 (Remaining)	\$		56,27
2023			38,44
2024			24,33
2025			15,71
Total principal			134,76
Less: debt issuance costs			(82)
Total principal, less debt issuance costs	\$		133,94

	Short-term Debt	Long-term Debt	Total
Principal amount	\$ 58,359	\$ 76,409	\$ 134,76
Less: debt issuance costs	(404)	(418)	(82)
Total debt, less debt issuance costs	\$ 57,955	\$ 75,991	\$ 133,94

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6. Leases

The Company evaluates contracts for lease accounting at contract inception and assesses lease classification at the lease commencement date. Operating leases are included in operating lease right-of-use (“ROU”) assets, operating lease liabilities and operating lease liabilities - long-term on the Company's condensed consolidated balance sheets. Finance leases are included in property, plant and equipment, finance lease liabilities and finance lease liabilities-long-term on the condensed consolidated balance sheets. The Company recognizes a ROU asset and corresponding lease obligation liability at the lease commencement date where the lease obligation liability is measured at the present value of the minimum lease payments. As most of the leases do not provide an implicit rate, the Company uses its incremental borrowing rate at lease commencement. The Company uses an interest rate commensurate with the interest rate to borrow on a collateralized basis over a similar term with an amount equal to the lease payments. Operating leases are primarily related to offices, research and development facilities, sales and marketing facilities, and manufacturing facilities. In addition, long-term supply agreements to lease gas tank equipment and purchase industrial gases are accounted for as operating leases. Lease agreements frequently include renewal provisions and require the Company to pay real estate taxes, insurance and maintenance costs. For operating leases, the amortization of the ROU asset and the accretion of its lease obligation liability result in a single straight-line expense recognized over the lease term. The finance lease is related to the RMB 400.0 million of lease financing of the JV Company with YinHai Leasing Company and The Export-Import Bank of China. See Note 5 - Bank Borrowings for details. The Company does not record leases on the condensed consolidated balance sheets with a term of one year or less.

The components of the Company’s operating and finance lease expenses are as follows for the periods presented (in thousands):

	Three Months Ended September 30,	
	2021	2020
Operating leases:		
Fixed rent expense	\$ 1,801	\$ 1,688
Variable rent expense	298	203
Finance lease:		
Amortization of equipment	468	559
Interest	410	615
Short-term leases		
Short-term lease expenses	54	58
Total lease expenses	<u>\$ 3,031</u>	<u>\$ 3,123</u>

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Supplemental balance sheets information related to the Company's operating and finance leases is as follows (in thousands, except lease term and discount rate):

	September 30, 2021	June 30, 2021
Operating Leases:		
ROU assets associated with operating leases	\$ 33,437	\$ 34,660
Finance Lease:		
Property, plant and equipment, gross	\$ 114,389	\$ 114,404
Accumulated depreciation	(96,809)	(96,470)
Property, plant and equipment, net	\$ 17,580	\$ 17,934
Weighted average remaining lease term (in years)		
Operating leases	8.30	8.44
Finance lease	1.47	1.72
Weighted average discount rate		
Operating leases	4.68 %	4.67 %
Finance lease	5.46 %	5.46 %

Supplemental cash flow information related to the Company's operating and finance lease is as follows (in thousands):

	Three Months Ended September 30, 2021	2020
Cash paid from amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 1,811	\$ 1,642
Operating cash flows from finance lease	\$ 410	\$ 615
Financing cash flows from finance lease	\$ 4,176	\$ 3,989
Non-cash investing and financing information:		
Operating lease right-of-use assets obtained in exchange for lease obligations	\$ 164	\$ 137

Future minimum lease payments are as follows as of September 30, 2021 (in thousands):

Year ending June 30,	Operating Leases	Finance Leases
The remainder of fiscal 2022	\$ 5,481	\$ 13,413
2023	6,132	13,050
2024	4,729	—
2025	3,765	—
2026	3,743	—
Thereafter	18,849	—
Total minimum lease payments	42,699	26,463
Less amount representing interest	(7,820)	(1,225)
Total lease liabilities	\$ 34,879	\$ 25,238

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7. Shareholders' Equity and Share-based Compensation

Share Repurchase

In September 2017, the Board of Directors approved a repurchase program (the “Repurchase Program”) that allowed the Company to repurchase its common shares from the open market pursuant to a pre-established Rule 10b5-1 trading plan or through privately negotiated transactions up to an aggregate of \$30.0 million. The amount and timing of any repurchases under the Repurchase Program depend on a number of factors, including but not limited to, the trading price, volume and availability of the Company’s common shares. Shares repurchased under this program are accounted for as treasury shares and the total cost of shares repurchased is recorded as a reduction of shareholders' equity. From time to time, treasury shares may be reissued as part of the Company’s share-based compensation programs. Gains on re-issuance of treasury stock are credited to additional paid-in capital; losses are 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 is charged to retained earnings.

During the three months ended September 30, 2021, the Company did not repurchase any shares pursuant to the Repurchase Program. Since the inception of the program, the Company repurchased an aggregate of 6,784,648 shares for a total cost of \$67.3 million, at an average price of \$9.92 per share, excluding fees and related expenses. No repurchased shares have been retired. Of the 6,784,648 repurchased shares, 161,145 shares with a weighted average repurchase price of \$10.13 per share, were reissued at an average price of \$5.19 per share pursuant to option exercises and vested restricted share units (“RSU”). As of September 30, 2021, approximately \$13.4 million remained available under the Repurchase Program.

Time-based Restricted Stock Units (“TRSU”)

The following table summarizes the Company's TRSU activities for the three months ended September 30, 2021:

	Number of Restricted Stock Units	Weighted Average Grant Date Fair Value Per Share	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Nonvested at June 30, 2021	1,053,524	\$ 21.60	1.73	\$ 32,016,594
Granted	52,500	\$ 27.38		
Vested	(28,853)	\$ 16.48		
Forfeited	(25,125)	\$ 22.29		
Nonvested at September 30, 2021	<u>1,052,046</u>	<u>\$ 22.01</u>	<u>1.56</u>	<u>\$ 33,002,683</u>

Market-based Restricted Stock Units (“MSU”)

During the quarter ended September 30, 2018, the Company granted 1.3 million MSUs to certain personnel. The number of shares to be earned at the end of performance period is determined based on the Company’s achievement of specified stock prices and revenue thresholds during the performance period from January 1, 2019 to December 31, 2021 as well as the recipients remaining in continuous service with the Company through such period. The MSUs vest in four equal annual installments after the end of the performance period. The Company estimated the grant date fair values of its MSUs using a Monte-Carlo simulation model. On August 31, 2020, the Compensation Committee of the Board approved a modification of the terms of MSU to (i) extend the performance period through December 31, 2022 and (ii) change the commencement date for the four-year time-based service period to January 1, 2023. The fair value of these MSUs was recalculated to reflect the change as of August 31, 2020 and the unrecognized compensation amount was adjusted to reflect the increase in fair value. The Company recorded approximately \$0.4 million and \$0.2 million of expenses for MSUs during the three months ended September 30, 2021 and 2020, respectively.

Performance-based Restricted Stock Units (“PRSUs”)

In March each year since year 2017, the Company granted PRSUs to certain personnel. The number of shares to be earned under the PRSUs is determined based on the level of attainment of predetermined financial goals. The PRSUs vest in four equal annual installments from the first anniversary date after the grant date if certain predetermined financial goals were met. The Company recorded approximately \$1.0 million and \$0.4 million of expense for these PRSUs during the three months ended September 30, 2021 and 2020, respectively.

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During the three months ended June 30, 2019, the Company announced an incentive program. Under this program, each participant's award is denominated in stock and subject to achievement of certain objective goals within certain timelines. In June 2020, the Company believed it was most likely that predetermined goal measures would be met. Therefore, the Company reported such expenses in the other current liabilities line on the condensed consolidated balance sheets as the amount of bonus is to be settled in variable number of RSU's at the completion of the objective goals. Such non-cash compensation expense was recorded as part of share-based compensation expense in the condensed consolidated statements of operations. As of September 30, 2021 and June 30, 2021, the Company recorded \$0.2 million and \$0.1 million such expenses in the other current liabilities, respectively. During the three months ended September 30, 2021 and 2020, the Company recorded \$0.1 million and \$0.6 million such non-cash compensation expense, respectively. As of September 30, 2021, the Company granted RSUs valued at \$3.6 million to participants, which were fully vested due to achievement of certain objective measures.

The following table summarizes the Company's PRSUs activities for the three months ended September 30, 2021:

	Number of Performance-based Restricted Stock Units	Weighted Average Grant Date Fair Value Per Share	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Nonvested at June 30, 2021	353,824	\$ 22.69	1.74	\$ 10,752,711
Forfeited	(250)	\$ 16.22		
Nonvested at September 31, 2021	353,574	\$ 22.69	1.48	\$ 11,091,616

Stock Options

The Company did not grant any stock options during the three months ended September 30, 2021 and 2020. The following table summarizes the Company's stock option activities for the three months ended September 30, 2021:

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at June 30, 2021	487,875	\$ 7.99	2.32	\$ 10,928,653
Outstanding at September 30, 2021	487,875	\$ 7.99	2.07	\$ 11,406,770
Options vested and expected to vest	487,875	\$ 7.99	2.07	\$ 11,406,770
Exercisable at September 30, 2021	487,875	\$ 7.99	2.07	\$ 11,406,770

Employee Share Purchase Plan ("ESPP")

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

	Three Months End September 30, 2021
Volatility rate	68.5%
Risk-free interest rate	0.1%
Expected term	1.3 years
Dividend yield	0%

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Share-based Compensation Expense

The total share-based compensation expense recognized in the condensed consolidated statements of operations for the periods presented was as follows:

	Three Months Ended September 30,	
	2021	2020
	(in thousands)	
Cost of goods sold	\$ 569	\$ 385
Research and development	1,043	1,080
Selling, general and administrative	3,023	1,411
	<u>\$ 4,635</u>	<u>\$ 2,876</u>

As of September 30, 2021, total unrecognized compensation cost under the Company's equity plans was \$24.5 million, which is expected to be recognized over a weighted-average period of 1.9 years.

8. Income Taxes

The Company recognized income tax expense of approximately \$1.3 million and \$1.0 million for the three months ended September 30, 2021 and 2020, respectively. The income tax expense of \$1.3 million for the three months ended September 30, 2021 included a \$0.09 million discrete tax expense. The income tax expense of \$1.0 million for the three months ended September 30, 2020 included a \$0.03 million discrete tax benefit. Excluding the discrete income tax items, the effective tax rate for the three months ended September 30, 2021 and 2020 was 5.4% and 10.7%, respectively. The changes in the effective tax rate and tax expense between the periods resulted primarily from the Company reporting pretax book income of \$22.8 million for the three months ended September 30, 2021 as compared to a pretax book income of \$9.8 million for the three months ended September 30, 2020.

The Company files its income tax returns in the United States and in various foreign jurisdictions. The tax years 2001 to 2021 remain open to examination by U.S. federal and state tax authorities. The tax years 2013 to 2021 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 September 30, 2021, the gross amount of unrecognized tax benefits was approximately \$7.7 million, of which \$4.7 million, if recognized, would reduce the effective income tax rate in future periods. If the Company's estimate of income tax liabilities proves to be less than the ultimate assessment, then a further charge to expense would be required. If events occur and the payment of these amounts ultimately proves to be unnecessary, the reversal of the liabilities would result in tax benefits being recognized in the period when the Company determines the liabilities are no longer necessary. The Company does not anticipate any material changes to its uncertain tax positions during the next twelve months.

“U.S. Consolidated Appropriations Act, 2021” (“CAA 2021”), Enacted December 27, 2020

On December 27, 2020, the United States enacted the Consolidated Appropriations Act, 2021, which made changes to existing U.S. tax laws. There was no material impact of the tax law changes included in the Consolidated Appropriations Act, 2021 to the Company.

“The American Rescue Plan Act of 2021”, Enacted March 11, 2021

On March 11, 2021, the United States enacted the American Rescue Plan Act of 2021, which made changes to existing U.S. tax laws. There was no material impact of the tax law changes included in the American Rescue Plan Act of 2021 to the Company.

On July 27, 2015, in *Altera Corp. v. Commissioner*, the U.S. Tax Court issued an opinion related to the treatment of stock-based compensation expense in an intercompany cost-sharing arrangement. In the July 2015 ruling, the Tax Court concluded that the sharing of the cost of employee stock compensation in a company's cost-sharing arrangement was invalid under the U.S.

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Administrative Procedures Act. In June 2019, a panel of the Ninth Circuit of the U.S. Court of Appeals reversed this decision. In July 2019, Altera petitioned U.S. Court of Appeals for the Ninth Circuit to hold an en banc rehearing of the case. The petition was subsequently denied by the Ninth Circuit. Altera appealed the case to the U.S. Supreme Court in February 2020, but the U.S. Supreme Court declined to hear the case in June 2020, leaving intact the U.S. Court of Appeals for the Ninth Circuit's decision. AOS has not recorded any benefit related to the Altera Corporation Tax Court decision in any period through September 2021. The Company will continue to monitor ongoing developments and potential impact to its financial statements.

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9. 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 in which the products were shipped to:

	Three Months Ended September 30,	
	2021	2020
	(in thousands)	
Hong Kong	\$ 148,655	\$ 125,508
China	32,840	23,263
South Korea	2,854	1,174
United States	2,305	1,456
Other countries	381	150
	<u>\$ 187,035</u>	<u>\$ 151,551</u>

During the three months ended September 30, 2021, the Company corrected an immaterial error to reduce revenues in Hong Kong by \$1.1 million, to increase the revenues in China and South Korea by \$54,000 and \$1.0 million, respectively, for the three months ended September 30, 2020.

The following is a summary of revenue by product type:

	Three Months Ended September 30,	
	2021	2020
	(in thousands)	
Power discrete	\$ 130,688	\$ 119,375
Power IC	52,330	29,455
Packaging and testing services	4,017	2,721
	<u>\$ 187,035</u>	<u>\$ 151,551</u>

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Long-lived assets, net consisting of property, plant and equipment and land use rights, net, as well as operating lease right-of-use assets, net by geographical area are as follows:

	September 30, 2021	June 30, 2021
	(in thousands)	
China	\$ 353,844	\$ 350,387
United States	118,160	118,756
Other countries	2,712	2,494
	<u>\$ 474,716</u>	<u>\$ 471,637</u>

10. Commitments and Contingencies

Purchase Commitments

As of September 30, 2021 and June 30, 2021, the Company had approximately \$86.7 million and \$81.8 million, respectively, of outstanding purchase commitments primarily for purchases of semiconductor raw materials, wafers, spare parts, packaging and testing services and others.

As of September 30, 2021 and June 30, 2021, the Company had approximately \$128.2 million and \$90.0 million, primarily for the Jireh and JV Company, respectively, of capital commitments for the purchase of property and equipment.

Other Commitments

See Note 1, Note 5 and Note 6 of the Notes to the Condensed Consolidated Financial Statements contained in this Quarterly Report on Form 10-Q for descriptions of commitments including Joint Venture, bank borrowings and leases.

Contingencies and Indemnities

The Company has in the past, and may from time to time in the future, become involved in legal proceedings arising from the normal course of business activities. The semiconductor industry is characterized by frequent claims and litigation, including claims regarding patent and other intellectual property rights as well as improper hiring practices. Irrespective of the validity of such claims, the Company could incur significant costs in the defense of such claims and suffer adverse effects on its operations.

In December 2019, the U.S. Department of Justice (“DOJ”) commenced an investigation into the Company's compliance with export control regulations relating to its business transactions with Huawei and its affiliates (“Huawei”), which were added to the “Entity List” maintained by the Department of Commerce (“DOC”) on May 16, 2019. The Company is cooperating fully with federal authorities in the investigation, including responding to requests for documents, information and interviews from DOJ in connection with the investigation. The Company has maintained an export control compliance program and has been committed to comply fully with all applicable laws and regulations. In connection with this investigation, DOC requested the Company to suspend shipments of its products to Huawei, and the Company complied with such request, and the Company has not shipped any product to Huawei after December 31, 2019. The Company is currently working with DOC to resolve this issue. Given the case is in still ongoing and neither DOJ nor DOC have provided the Company with any clear indication of the timing and schedule for the investigation, the Company cannot estimate the reasonably possible loss or range of loss that may occur. Also, the Company is unable to predict the duration, scope, result or related costs of the investigation, although the Company expects to incur additional professional fees as a result of this matter. In addition, the Company is unable to predict what, if any, further action that may be taken by the government in connection with the investigation, or what, if any, penalties, sanctions or remedial actions may be sought.

On March 19, 2020, Darryl Gray, a stockholder of the Company (the “Plaintiff”), filed a putative class action complaint in the United States District Court for the Southern District of New York (the “Gray Action”), alleging that the Company and its management members made material misstatements or omissions regarding the Company’s business and operations, including its export control practices relating to business transactions with Huawei and its affiliate. The Gray Action asserts claims under Section 10(b) of the Exchange Act against the Company, its Chief Executive Officer and Chief Financial Officer (collectively, the “Defendants”), as well as claims under Section 20(a) of the Exchange Act against the Chief Executive Officer and Chief

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Financial Officer. Among other remedies, the Gray Action seeks to recover compensatory and other damages as well as attorney's fees and costs.

On May 18, 2020, Plaintiff moved for an order appointing him as Lead Plaintiff pursuant to Section 21D of the Exchange Act and approving Glancy Prongay & Murray LLP as Lead Counsel for the putative class (the "Motion"). On July 1, 2020, the Court entered an order granting the Motion and requiring that: (i) Lead Plaintiff file an amended complaint or designate the current complaint as operative within sixty days; (ii) Defendants answer the complaint or otherwise move within sixty days of such filing or designation; (iii) Lead Plaintiff file an opposition, if any, within forty-five days; and (iv) Defendants file a reply, if any, forty-five days thereafter. On August 28, 2020, Plaintiff filed an amended complaint asserting the same claims against the Defendants, and adding the Company's Executive Vice President of Product Line as a defendant on both claims. On October 27, 2020, the Defendants moved to dismiss the action in its entirety. Plaintiff filed his opposition on December 11, 2020 and Defendants filed their reply brief on January 25, 2021. On September 27, 2021, the Court entered an opinion and order granting Defendants' motion and dismissing the amended complaint in its entirety. In so doing, the Court found, among other things, that Plaintiff failed adequately to allege that any of AOS's indirect sales to Huawei were illegal, and therefore none of the Company's statements regarding its positive performance or its efforts to contend with a difficult geopolitical climate and trade tensions could plausibly be seen as "inaccurate, incomplete, or misleading." The Court's order allowed Plaintiff an opportunity to file a second amended complaint by October 27, 2021, attempting to cure the various deficiencies, barring which the matter would be dismissed with prejudice. As of that date, however, no such filing was made and the Company anticipates that the matter will be dismissed with prejudice.

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 was made at September 30, 2021 and June 30, 2021.

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 acquire, maintain or renew such insurance coverage in the future under favorable terms or at all.

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. These forward looking statements include, but are not limited to, statements regarding future financial performance of the Company; the expected ramp up timeline of the 12-inch fab at the JV Company; the impact of government investigation and coronavirus on our financial performance; and other statements and information set forth under the heading "Factors Affecting Our Performance". 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, 2021, filed with the Securities and Exchange Commission on August 30, 2021.

Overview

We are a designer, developer and global supplier of a broad portfolio of power semiconductors. Our portfolio of power semiconductors includes approximately 2,400 products, and has grown significantly with the introduction of over 160 new products in the fiscal years ended June 30, 2021 and 2020, respectively, and 200 new products in the fiscal year ended June 30, 2019, respectively. During the three months ended September 30, 2021, we introduced an additional 17 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 870 patents and 56 patent applications in the United States as of September 30, 2021. We also have a total of 907 foreign patents, which were based primarily on our research and development efforts through September 30, 2021. We differentiate ourselves by integrating our expertise in technology, design and advanced manufacturing and packaging to optimize product performance and cost. Our portfolio of products targets high-volume applications, including personal and portable computers, graphic cards, flat panel TVs, home appliances, smart phones, battery packs, game consoles, 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 an 8-inch wafer fabrication facility located in Hillsboro, Oregon, or the Oregon fab, which is critical for us to accelerate proprietary technology development, new product introduction and improve our financial performance. 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. In addition, we utilize subcontracting partners for industry standard packages. We believe our in-house packaging and testing capability provides us with a competitive advantage in proprietary packaging technology, product quality, cost and sales cycle time.

We operate a power semiconductor packaging, testing and wafer fabrication facility in the Liangjiang New Area of Chongqing, China through our joint venture (the "JV Company") with two investment funds owned by the Municipality of Chongqing (the "Chongqing Funds"). We currently own 51%, and the Chongqing Funds own 49%, of the equity interest in the JV Company. While the JV Company is our consolidated subsidiary for purpose of financial reporting, it operates as an independent and separate legal entity. As a result, the JV Company's assets and liabilities are segregated from our company's assets and liabilities. For example, the JV Company incurs debt through its own financing and bank loan agreements, and our parent company and other subsidiaries are not parties to these agreements and do not provide any guarantee or security for the JV Company's debt, nor do we have direct access to any cash proceeds borrowed from such loan agreements. As part of our strategic plan, we formed the JV Company to fulfill growing customer demand. The JV Company has reached its targeted production of assembly and testing, and has ramped up its Phase I target run rate of the 12-inch wafer fabrication in the quarter ended September 30, 2021. During the three months ended September 30, 2021, we recorded \$2.0 million in net loss attributable to the noncontrolling interest in the JV Company. The additional capacity at the JV Company contributed significantly to meeting the increasing demand for our products. However, the financial performance of the JV Company is

affected by various factors, including the impact of the global COVID-19 pandemic and related economic downturn, intensified geopolitical tensions between China and U.S., logistical difficulties, the JV Company's ability to obtain financing and other risk factors beyond our control. We will continue to monitor and evaluate market conditions closely and react quickly to the changing environment as necessary to achieve an optimal production level at the JV Company. In addition, the JV Company is currently pursuing various financing options to fund its future expansion and repay its debt obligations, and there is no guarantee that the JV Company will be able obtain such financing with favorable terms, or at all. We expect the joint venture to provide important capacity to support our future growth, enhance our market positions in China, and drive improvements in capital expenditures.

During the fiscal quarter ended September 30, 2021, we continued our diversification program by developing new silicon and packaging platforms to expand our serviceable available market, or SAM and offer higher performance products. Our metal-oxide-semiconductor field-effect transistors, or MOSFET, and power IC product portfolio expanded significantly. Our high performance products and deepened customer relationships with our OEM and ODM customers have contributed to the achievement of our record high quarterly revenue of \$187.0 million for the three months ended September 30, 2021, a 23.4% growth compared to the same quarter last year.

Impact of COVID-19 Pandemic to our Business

Our business operations have been impacted by the global COVID-19 pandemic and the resulting economic downturn. Numerous governmental jurisdictions, including the States of California, Oregon and Texas in the U.S. and countries throughout the Asia Pacific region have imposed "stay-at-home" orders, quarantines, travel bans and similar governmental orders and restrictions to control the spread of COVID-19. Such orders and restrictions have resulted in business closures, work stoppages, slowdowns and delays in commercial activities, unprecedented and widespread unemployment, disruptions to ports and other shipping infrastructure, border closures, and other travel or health-related restrictions, thereby negatively impacting our customers, suppliers, distributors, employees, offices, and the entire semiconductor ecosystem.

As a result of the COVID-19 pandemic and changing consumer behaviors due to various government restrictions, including "stay-at-home" orders, we have experienced shifting market trends, including an increasing demand in markets for notebooks, PCs, gaming devices and other products. While we have recently benefited from the increasing demand for PC related products, there is no guarantee that this trend will continue, and such increasing demand may discontinue or decline if government authorities relax or terminate COVID-19 related restrictions and consumer behaviors change in response to the reopening of certain economic activities. In an effort to protect the health and safety of our employees and to comply with various government and regulatory guidelines, we took proactive actions to adopt policies and protocols at our locations around the world, including social distancing guidelines, working from home, limiting the number of employees attending meetings, reducing the number of people in our sites at any one time, and suspending employee travel, and these measures may result in difficulties and logistical challenges in our business operations.

Since the start of the second quarter of 2021, there have been increasing availability and administration of vaccines against COVID-19, as well as an easing of restrictions on social, business, travel, and government activities and functions, and a gradual resumption of economic activities and consumer spending in our industries. On the other hand, infection rates continue to fluctuate in various regions and new strains of the virus remain a risk. In addition, there are ongoing global impacts resulting from the pandemic, including disruption of the product supply chains, shortages of semiconductor components, and delays in shipments, product development, and product launches. The full extent of the future impact of the COVID-19 pandemic on our operational and financial performance is uncertain and will depend on many factors outside our control, including, without limitation, the timing, extent, trajectory and duration of the pandemic; the availability, distribution and effectiveness of vaccines; the spread of new variants of COVID-19; the continued and renewed imposition of protective public safety measures; the disruption of global supply chain; and the impact of the pandemic on the global economy and demand for consumer products. Although we are unable to predict the full impact and duration of the COVID-19 pandemic on our business, we are actively managing our business operations and financial expenditures in response to continued uncertainty.

Other Factors affecting our performance

In addition to the COVID-19 pandemic and related events as described above, 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, any significant change in global and regional economic conditions could materially affect our revenue and results of operations. For example, 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 substantial decline or downturn in the PC market could have a material adverse effect on our revenue and results of operations. The PC markets have experienced a modest global decline in recent years 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 impact on the demand for our products. However, we recently have experienced a significant increase of demand in PC market due to the impact of the COVID-19 pandemic and resulting shift in market trend and consumer behaviors. We cannot predict whether and how long this trend will continue due to the uncertainty and unpredictability of COVID-19 pandemic. A decline of the PC market may have a negative impact on our revenue, factory utilization, gross margin, our ability to resell excess inventory, and other performance measures. We have executed and continue to execute strategies to diversify our product portfolio, penetrate other market segments, including the consumer, communications and industrial markets, and improve gross margins and profit by implementing cost control measures. While making efforts to reduce our reliance on the computing market, we continue to support our computing business and capitalize on the opportunities in this market with a more focused and competitive PC product strategy to gain market share.

Manufacturing costs and capacity availability: Our gross margin is affected by a number of factors including our manufacturing costs, utilization of our manufacturing facilities, the product mixes of our sales, pricing of wafers from third party foundries and pricing of semiconductor raw materials. Capacity utilization affects our gross margin because we have certain fixed costs at our Shanghai facilities, our Oregon fab and our Chongqing fabrication facility operated by the JV Company. If we are unable to utilize our manufacturing facilities at a desired level, our gross margin may be adversely affected. In addition, from time to time, we may experience wafer capacity constraints, particularly at third party foundries, that may prevent us from meeting fully the demand of our customers. For example, the recent global shortage of semiconductor manufacturing capacity has provided us with both challenges and opportunities in the market, and highlighted the importance of maintaining sufficient and independent in-house manufacturing capabilities to meet increasing customer demands. While we can mitigate these constraints by increasing and re-allocating capacity at our own fab, we may not be able to do so quickly or at sufficient level, which could adversely affect our financial conditions and results of operations. In addition, we recently commenced a plan to enhance the manufacturing capability and capacity of our Oregon fab by investing in new equipment and expanding our factory facilities, which we expect will have a positive impact on our future new product development and revenue, particularly during the period of global shortage of capacity. We also rely on the JV Company to provide foundry capacity to manufacture our products, therefore it is critical that we maintain continuous access to such capacity, which may not be available at sufficient level or at a pricing terms favorable to us if our control over the JV Company’s operation is diminished. Our control may be reduced if the JV Company completes an equity financing or/and issues more shares that dilute our equity interests in the JV Company, or if the management of the JV Company operates more independently without our supervision.

Erosion and fluctuation of average selling price: Erosion of average selling prices of established products is typical in our industry. Consistent with this historical trend, we expect our average selling prices of existing products to decline in the future. However, in the normal course of business, we seek to offset the effect of declining average selling price by introducing new and higher value products, expanding existing products for new applications and new customers and reducing the manufacturing cost of existing products. These strategies may cause the average selling price of our products to fluctuate significantly from time to time, thereby affecting our financial performance and profitability.

Product introductions and customers’ product requirements: Our success depends on our ability to introduce products on a timely basis that meet or are compatible with our customers’ specifications and performance requirements. Both factors, timeliness of product introductions and conformance to customers’ requirements, are equally important in securing design wins with our customers. As we accelerate the development of new technology platforms, we expect to increase the pace at which we introduce new products and seek and acquire design wins. If we were to fail to introduce new products on a timely basis that meet customers’ specifications and performance requirements, particularly those products with major OEM customers, and continue to expand our serviceable markets, then we would lose market share and our financial performance would be adversely affected. We believe that the JV Transaction will increase and diversify our customer base, particularly in China, in the long term. However, the ramp-activities and production schedule of our JV Company have been impacted by the COVID-19 pandemic and related events, as discussed above. Even if we are able to ramp up the operation of the JV Company timely, we may not be successful in acquiring or maintaining a sufficient number of new customers to offset additional costs due to various factors, including but are not limited to, competition from other semiconductor companies in the region, our lack

of history and prior relationships with customers as a new entrant, difficulties in executing our joint venture strategies and the general economic conditions in Chongqing and China.

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

Regulatory Matters: As previously disclosed, the DOJ commenced an investigation into our compliance with export control regulations relating to business transactions with Huawei, which were added to the “Entity List” by the DOC in May 2019. We continue to cooperate fully with federal authorities in the investigation. We have continued to respond to inquiries and requests from DOJ for documents and information relating to the investigation, and the matter is currently pending at DOJ. However, DOJ and DOC have not provided us any clear or definitive response regarding the timeline of the investigation and potential resolutions or outcome. In the meantime, we continue to incur significant costs and expenses, including legal and professional fees, in connection with the government investigation, which may reduce our profitability and operating margin.

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

Cost of goods sold

Our cost of goods sold primarily consists of costs associated with semiconductor wafers, packaging and testing, personnel, including share-based compensation expense, overhead attributable to manufacturing, operations and procurement, and costs associated with yield improvements, capacity utilization, warranty and valuation of inventories. As the volume of sales increases, we expect cost of goods sold to increase. We continued to ramp up the 12-inch fab at the JV Company to meet the increasing demand on our products. While our utilization rates cannot be immune to the market conditions, our goal is to make them less vulnerable to market fluctuations. We believe our market diversification strategy and product growth will drive higher volume 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 and impairment of long-lived assets. We expect our operating expenses as a percentage of revenue to fluctuate from period to period as we continue to exercise cost control measures in response to the declining PC market as well as align our operating expenses to the revenue level.

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

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

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.

U.S. Tax Cuts and Jobs Act, Enacted December 22, 2017

On December 22, 2017, the United States enacted tax reform legislation through the Tax Cuts and Jobs Act (“the Tax Act”), which significantly changes the existing U.S. tax laws, including, but not limited to, (1) a reduction in the corporate tax rate from 35% to 21%, (2) a shift from a worldwide tax system to a territorial system, (3) eliminating the corporate alternative minimum tax (AMT) and changing how existing AMT credits can be realized, (4) bonus depreciation that will allow for full expensing of qualified property, (5) creating a new limitation on deductible interest expense and (6) changing rules related to uses and limitations of net operating loss carryforwards created in tax years beginning after December 31, 2017.

The company is not currently subject to the Base Erosion and Anti-Abuse (BEAT) tax, which is a tax imposed on certain entities who make payments to their non US affiliates, where such payments reduce the US tax base. The BEAT tax is imposed at a rate of 10% on Adjusted Taxable Income, excluding certain payments to foreign related entities. It is an incremental tax over and above the corporate income tax and is recorded as a period cost. It is possible that this tax could be applicable in future periods, which would cause an increase to the effective tax rate and cash taxes.

“U.S. Consolidated Appropriations Act, 2021” (“CAA 2021”), Enacted December 27, 2020

On December 27, 2020, the United States enacted the Consolidated Appropriations Act, 2021, which made changes to existing U.S. tax laws. There was no material impact of the tax law changes included in the Consolidated Appropriations Act, 2021 to the Company.

“The American Rescue Plan Act of 2021”, Enacted March 11, 2021

On March 11, 2021, the United States enacted the American Rescue Plan Act of 2021, which made changes to existing U.S. tax laws. There was no material impact of the tax law changes included in the American Rescue Plan Act of 2021 to the Company.

Results of Operations

The following tables set forth statements of operations, also expressed as a percentage of revenue, for the three months ended September 30, 2021 and 2020. Our historical results of operations are not necessarily indicative of the results for any future period.

	Three Months Ended September 30,							
	2021		2020		2021		2020	
	(in thousands)				(% of revenue)			
Revenue	\$	187,035	\$	151,551	100.0	%	100.0	%
Cost of goods sold		122,468		109,028	65.5	%	71.9	%
Gross profit		64,567		42,523	34.5	%	28.1	%
Operating expenses								
Research and development		17,812		14,691	9.5	%	9.7	%
Selling, general and administrative		21,806		17,505	11.7	%	11.6	%
Total operating expenses		39,618		32,196	21.2	%	21.3	%
Operating income		24,949		10,327	13.3	%	6.8	%
Interest expense and other income (loss), net		(2,192)		(549)	(1.3)	%	(0.3)	%
Income before income taxes		22,757		9,778	12.0	%	6.5	%
Income tax expense		1,320		1,011	0.7	%	0.7	%
Net income including noncontrolling interest		21,437		8,767	11.3	%	5.8	%
Net loss attributable to noncontrolling interest		(1,987)		(807)	(1.1)	%	(0.5)	%
Net income attributable to Alpha and Omega Semiconductor Limited	\$	23,424	\$	9,574	12.4	%	6.3	%

Share-based compensation expense was recorded as follows:

	Three Months Ended September 30,			
	2021		2020	
	(in thousands)		(% of revenue)	
Cost of goods sold	\$	569	\$	385
Research and development		1,043		1,080
Selling, general and administrative		3,023		1,411
Total	\$	4,635	\$	2,876

Three Months Ended September 30, 2021 and 2020

Revenue

The following is a summary of revenue by product type:

	Three Months Ended September 30,			
	2021	2020	Change	
	(in thousands)	(in thousands)	(in thousands)	(in percentage)
Power discrete	\$ 130,688	\$ 119,375	\$ 11,313	9.5 %
Power IC	52,330	29,455	22,875	77.7 %
Packaging and testing services	4,017	2,721	1,296	47.6 %
	<u>\$ 187,035</u>	<u>\$ 151,551</u>	<u>\$ 35,484</u>	<u>23.4 %</u>

Total revenue was \$187.0 million for the three months ended September 30, 2021, an increase of \$35.5 million, or 23.4%, as compared to \$151.6 million for the same quarter last year. The increase was primarily due to an increase of \$11.3 million and \$22.9 million in sales of power discrete products and sales of power IC products, respectively. The increase in power discrete and power IC product sales was primarily due to a 39.7% increase in unit shipments, partially offset by an 8.4% decrease in average selling price as compared to same quarter last year due to a shift in product mix. The increase in revenue of packaging and testing services for the three months ended September 30, 2021, as compared to same quarter last year, was primarily due to increased demand.

Cost of goods sold and gross profit

	Three Months Ended September 30,			
	2021	2020	Change	
	(in thousands)	(in thousands)	(in thousands)	(in percentage)
Cost of goods sold	\$ 122,468	\$ 109,028	\$ 13,440	12.3 %
Percentage of revenue	65.5 %	71.9 %		
Gross profit	\$ 64,567	\$ 42,523	\$ 22,044	51.8 %
Percentage of revenue	34.5 %	28.1 %		

Cost of goods sold was \$122.5 million for the three months ended September 30, 2021, an increase of \$13.4 million, or 12.3%, as compared to \$109.0 million for the same quarter last year. The increase was primarily due to 23.4% increase in revenue. Gross margin increased by 6.4 percentage points to 34.5% for the three months ended September 30, 2021, as compared to 28.1% for the same quarter last year. Our JV Company continued its ramp during the three months ended September 30, 2021, which resulted in an increase in the capacity utilization and contributed to the increase in gross margin during the three months ended September 30, 2021.

Research and development expenses

	Three Months Ended September 30,			
	2021	2020	Change	
	(in thousands)	(in thousands)	(in thousands)	(in percentage)
	\$ 17,812	\$ 14,691	\$ 3,121	21.2 %

Research and development expenses were \$17.8 million for the three months ended September 30, 2021, an increase of \$3.1 million, or 21.2%, as compared to \$14.7 million for the same quarter last year. The increase was primarily attributable to a \$2.7 million increase in employee compensation and benefits expense mainly due to higher bonuses accrual, a \$0.2 million increase in product prototyping engineering expense as a result of increased engineering activities, and a \$0.1 million increase in depreciation expenses during the current quarter.

Selling, general and administrative expenses

	Three Months Ended September 30,			
	2021	2020	Change	
	(in thousands)	(in thousands)	(in thousands)	(in percentage)
Selling, general and administrative	\$ 21,806	\$ 17,505	\$ 4,301	24.6 %

Selling, general and administrative expenses were \$21.8 million for the three months ended September 30, 2021, an increase of \$4.3 million, or 24.6%, as compared to \$17.5 million for the same quarter last year. The increase was primarily attributable to a \$4.2 million increase in employee compensation and benefits expenses mainly due to higher bonus expenses accrual and increased business insurance expenses, as well as \$1.6 million increase in share-based compensation expense due to higher stock rewards price. The increase was partially offset by a \$0.7 million decrease in legal expense related to the government investigation, a \$0.2 million decrease in marketing demo and trade shows costs as a result of the COVID-19 pandemic, and a \$0.5 million decrease in audit and tax consulting fees during the current quarter.

Interest expense and other income (loss), net

	Three Months Ended September 30,			
	2021	2020	Change	
	(in thousands)	(in thousands)	(in thousands)	(in percentage)
Interest expense and other income (loss), net	\$ (2,192)	\$ (549)	\$ (1,643)	299.3 %

Interest expense was primarily related to bank borrowings. Interest expense increased by \$0.5 million during the three months ended September 30, 2021 as compared to the same period last year was primarily due to an increase in bank borrowings, as well as an interest refund from the Chinese government in the JV Company in the same period last year.

Interest income and others were primarily related to interest earned from cash and cash equivalents, as well as foreign exchange gains (losses). Interest income and others, net decreased by \$1.1 million during the three months ended September 30, 2021 as compared to the same period last year was primarily due to lower foreign currency exchange gains as a result of the depreciation of RMB against USD.

Income tax expense

	Three Months Ended September 30,			
	2021	2020	Change	
	(in thousands)	(in thousands)	(in thousands)	(in percentage)
Income tax expense	\$ 1,320	\$ 1,011	\$ 309	30.6 %

The Company recognized income tax expense of approximately \$1.3 million and \$1.0 million for the three months ended September 30, 2021 and 2020, respectively. The income tax expense of \$1.3 million for the three months ended September 30,

2021 included a \$.09 million discrete tax expense. The income tax expense of \$1.0 million for the three months ended September 30, 2020 included a \$0.03 million discrete tax benefit. Excluding the discrete income tax items, the effective tax rate for the three months ended September 30, 2021 and 2020 was 5.4% and 10.7%, respectively. The changes in the effective tax rate and tax expense between the periods resulted primarily from the Company reporting pretax book income of \$22.8 million for the three months ended September 30, 2021 as compared to a pretax book income of \$9.8 million for the three months ended September 30, 2020.

Liquidity and Capital Resources

Our principal need for liquidity and capital resources is to maintain sufficient working capital to support our operations and to invest adequate capital expenditures to grow our business. To date, we finance our operations and capital expenditures primarily through funds generated from operations and borrowings under our term loans, financing lease and other debt agreements.

On August 18, 2021, Jireh entered into a term loan agreement with a financial institution (the "Bank") in an amount up to \$45.0 million for the purpose of expanding and upgrading the Company's fabrication facility located in Oregon. The obligation under the loan agreement is secured by substantially all assets of Jireh and guaranteed by the Company. The agreement has a 5.5 year term and matures on February 16, 2027. Jireh is required to make consecutive quarterly payments of principal and interest. The loan accrues interest based on adjusted LIBOR plus the applicable margin based on the outstanding balance of the loan. This agreement contains customary restrictive covenants and includes certain financial covenants that require the Company to maintain. As of September 30, 2021, there was no outstanding balance under the loan.

On October 2019, the Company's subsidiary in China entered into a line of credit facility with Bank of Communications Limited in China. This line of credit matures on February 14, 2021 and is based on the China Base Rate multiplied by 1.05, or 4.99% on October 31, 2019. The purpose of the credit facility is to provide short-term borrowings. The Company could borrow up to approximately RMB 60.0 million or \$8.5 million based on the currency exchange rate between the RMB and the U.S. Dollar on October 31, 2019. In September 2021, this line of credit was renewed with maximum borrowings up to RMB 140.0 million with the same terms and a maturity date of September 18, 2022. As of September 30, 2021, there was no outstanding balance under the loan.

On November 16, 2018, the Company's subsidiary in China entered into a line of credit facility with Industrial and Commercial Bank of China. The purpose of the credit facility was to provide short-term borrowings. The Company could borrow up to approximately RMB 72.0 million or \$10.3 million based on currency exchange rate between RMB and U.S. Dollar on November 16, 2018. The RMB 72.0 million consists of RMB 27.0 million for trade borrowings with a maturity date of December 31, 2021, and RMB 45.0 million for working capital borrowings or trade borrowings with a maturity date of September 13, 2022. As of September 30, 2021, there was no outstanding balance under the loan.

On August 9, 2019, one of the Company's wholly-owned subsidiaries (the "Borrower") entered into a factoring agreement with the Hongkong and Shanghai Banking Corporation Limited ("HSBC"), whereby the Borrower assigns certain of its accounts receivable with recourse. This factoring agreement allows the Borrower to borrow up to 70% of the net amount of its eligible accounts receivable of the Borrower with a maximum amount of \$30.0 million. The interest rate is based on one month London Interbank Offered Rate ("LIBOR") plus 1.75% per annum. The Company is the guarantor for this agreement. The Company is accounting for this transaction as a secured borrowing under the Transfers and Servicing of Financial Assets guidance. In addition, any cash held in the restricted bank account controlled by HSBC has a legal right of offset against the borrowing. This agreement, with certain financial covenants required, has no expiration date. On August 11, 2021, the Borrower signed an agreement with HSBC to decrease the borrowing maximum amount to \$8.0 million with certain financial covenants required. Other terms remain the same. As of September 30, 2021, the Borrower was in compliance with these covenants. As of September 30, 2021, there was no outstanding balance and the Company had unused credit of approximately \$8.0 million.

On May 1, 2018, Jireh Semiconductor Incorporated ("Jireh"), a wholly-owned subsidiary of the Company, entered into a loan agreement with a financial institution (the "Bank") that provided a term loan in the amount of \$17.8 million. The obligation under the loan agreement is secured by certain real estate assets of Jireh and guaranteed by the Company. The loan has a five-year term and matures on June 1, 2023. Beginning June 1, 2018, Jireh made consecutive monthly payments of principal and interest to the Bank. The outstanding principal accrues interest at a fixed rate of 5.04% per annum on the basis of a 360-day year. 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. In August 2021, Jireh signed an amendment of this loan with the Bank to modify the financial covenants requirement to align with the new term loan agreement entered into on August 18, 2021 discussed above. The amendment was accounted for as a debt modification and no gain or loss

was recognized. The Company was in compliance with these covenants as of September 30, 2021. As of September 30, 2021, the outstanding balance of the term loan was \$14.8 million.

On August 15, 2017, Jireh entered into a credit agreement with the Bank that provided a term loan in an amount up to \$30.0 million for the purpose of purchasing certain equipment for the Company's fabrication facility located in Oregon. The obligation under the credit agreement is secured by substantially all assets of Jireh and guaranteed by the Company. The credit agreement has a five-year term and matures on August 15, 2022. In January 2018 and July 2018, Jireh drew down the loan in the amount of \$13.2 million and \$16.7 million, respectively. Beginning in October 2018, Jireh is required to pay to the Bank on each payment date, the outstanding principal amount of the loan in monthly installments. The loan accrues interest based on an adjusted LIBOR as defined in the credit agreement, plus a specified applicable margin in the range of 1.75% to 2.25%, based on the outstanding balance of the loan. The credit agreement contains customary restrictive covenants and includes certain financial covenants that require the Company to maintain, on a consolidated basis, specified financial ratios and fixed charge coverage ratio. In August 2021, Jireh signed an amendment of this loan with the Bank to modify the financial covenants requirement to align with the new term loan agreement entered into on August 18, 2021 discussed above. The amendment was accounted for as a debt modification and no gain or loss was recognized. The Company was in compliance with these covenants as of September 30, 2021. As of September 30, 2021, the outstanding balance of the term loan was \$7.5 million.

In September 2017, the Board of Directors approved a repurchase program (the "Repurchase Program") that allowed us to repurchase our common shares from the open market pursuant to a pre-established Rule 10b5-1 trading plan or through privately negotiated transactions up to an aggregate of \$30.0 million. The amount and timing of any repurchases under the Repurchase Program depend on a number of factors, including but not limited to, the trading price, volume and availability of our common shares. Shares repurchased under this program are accounted for as treasury shares and the total cost of shares repurchased is recorded as a reduction of shareholders' equity. We did not repurchase any shares pursuant to the Repurchase Plan during the three months ended September 30, 2021. Since the inception of the program, we repurchased an aggregate of 6,784,648 shares for a total cost of \$67.3 million, at an average price of \$9.92 per share, excluding fees and related expenses. As of September 30, 2021, of the 6,784,648 repurchased shares, 161,145 shares with a weighted average repurchase price of \$10.13 per share, were reissued at an average price of \$5.19 per share pursuant to option exercises and vested restricted share units. We had \$13.4 million remained available under the Repurchase Program as of September 30, 2021.

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.

JV Company Financing Transactions

From time to time the JV Company entered into financing and loan agreements with banks and other third parties to fund capital expenditures and other operational expenses in connection with the constructions and ramp-up of the manufacturing facility in Chongqing. The JV Company incurs debt through its own financing agreements, and our parent company and other subsidiaries are not parties to these agreements and do not provide any guarantee or security for JV Company's debt, nor do we have direct access to any cash proceeds borrowed from such loan agreements.

On May 9, 2018 (the "Effective Date"), the JV Company entered into a lease finance agreement and a security agreement (the "Agreements") with YinHai Leasing Company and China Import/Export Bank (the "Lenders"). Pursuant to the Agreements, the Lenders agreed to provide an aggregate of RMB 400.0 million, or \$62.8 million based on the currency exchange rate between RMB and U.S. Dollar on the Effective Date, of financing to the JV Company (the "Lease Financing"). In exchange for the Lease Financing, the JV Company agreed to transfer title of its assembly and testing equipment to the Lenders, and the Lenders leased such equipment to the JV Company under a five-year lease arrangement, pursuant to which the JV Company makes quarterly lease payments to the Lenders consisting of principal and interest based on a repayment schedule mutually agreed by the parties. The interest under the Lease Financing is accrued based on the China Base Rate multiplied by 1.15, or 5.4625% on the Effective Date. Under the Agreements, at the end of the five-year lease term, the Lenders agree to sell such equipment back to the JV Company for a nominal amount (RMB 1). The JV Company's obligations under the Lease Financing are secured by the land and building owned by the JV Company (the "Collateral"). The proceeds from the Lease Financing were used primarily for the acquisition and installation of the 12-inch fabrication equipment and other expenses of the JV Company relating to the completion of the fabrication facility located in Chongqing. The Agreements contain customary representation, warranties and covenants, including restrictions on the transfer of the Collateral. The Agreements also contain

customary events of default, including but not limited to, failure to make payments and breach of material terms under the Agreements. The Agreements include certain customary closing conditions, including the payment of deposit by the JV Company. On June 28, 2020, the parties entered into a modification to this agreement, pursuant to which the interest rate was changed to be the five-year loan prime rate in China plus 0.8125%, or 5.4625%. Other terms of this agreement remain the same. As of September 30, 2021, the outstanding balance of the Lease Financing of 163.0 million RMB (equivalent of \$25.2 million based on the currency exchange rate as of September 30, 2021) was recorded under short-term and long-term finance lease liabilities.

On March 12, 2019, the JV Company entered into a loan agreement with The Export-Import Bank of China in the aggregate principal amount of RMB 200.0 million (approximately \$29.8 million based on currency exchange rate between RMB and U.S. Dollar on March 31, 2019). The loan will mature on February 20, 2025. The JV Company drew down RMB 190.0 million and RMB 10.0 million in March 2019 and December 2019, respectively. The loan withdraw window expired on February 28, 2020. The interest is accrued based on the China Base Rate multiplied by 1.1, or 5.39%. The loan requires quarterly interest payments. The principal payments are required to be paid every 6 months over the term of loan commencing in October 2019. This loan is secured by the buildings and certain equipment owned by the JV Company with a carrying value of \$88.1 million as of September 30, 2021. As a condition of the loan arrangement, RMB 14.0 million (approximately \$2.0 million) of cash is held as restricted cash by the JV Company as a compensating balance at the bank until the principal is paid. On June 24, 2020, a modification of this loan was signed, pursuant to which the interest rate was changed to be based on the five-year loan prime rate in China plus 0.74%, or 5.39%. Other terms of this loan remain the same. As of September 30, 2021, the outstanding balance of the loan was RMB 184.0 million (equivalent of \$28.5 million based on the currency exchange rate as of September 30, 2021).

In December 2019, the JV Company entered into a loan agreement with China Development Bank in the amount of \$24.0 million. The obligation under the loan agreement is secured by certain assets of the JV Company with a carrying value of \$111.7 million as of September 30, 2021. The JV Company is required to make consecutive semi-annual payments of principal until December 8, 2024. The interest is accrued based on the LIBOR rate plus 2.8%. The interest is required to be paid on March 21 and September 21 each year. As of September 30, 2021, the outstanding balance of the loan was \$19.2 million.

On April 26, 2020, the JV Company entered into a loan agreement with China Development Bank, Agricultural Bank of China, China Merchants Bank and Chongqing Rural Commercial Bank (collectively, the “Banks”) in the aggregate principal amount of RMB 250 million (approximately \$35.7 million based on the currency exchange rate between RMB and U.S. Dollar on April 26, 2020). The obligation under the loan agreement is secured by certain assets of the JV Company. The obligation under the loan agreement is secured by certain assets of the JV Company with a carrying value of \$111.7 million as of September 30, 2021. The JV Company is required to make consecutive semi-annual payments of principal until December 8, 2024. Interest payments are due on March 20, June 20, September 20 and December 20 of each year based on the LPR plus 1.3%. The JV Company drew down RMB 250.0 million (approximately \$35.3 million based on the currency exchange rate between RMB and U.S. Dollar on June 30, 2020) in April 2020. As of September 30, 2021, the outstanding balance of the loan was \$34.1 million.

On November 13, 2020, the JV Company entered into a one-year loan agreement with China Merchant Bank in China. The JV Company can borrow up to RMB 50.0 million, or \$7.6 million, based on the currency exchange rate between RMB and U.S. Dollar on November 13, 2020. The loan's interest rates are based on the China one-year loan prime rate (“LPR”) plus 1.4% per annum. Interest payments are due quarterly with the entire principal due not later than November 19, 2021. During the three months ended December 31, 2020, the JV Company borrowed RMB 50.0 million, or \$7.6 million, at an interest rate of 5.25% per annum. As of September 30, 2021, the outstanding balance of this loan was \$7.7 million.

On April 19, 2021, the JV Company entered into a loan agreement with China Everbright Bank in China to borrow a maximum of RMB 100 million. The borrowing can be in RMB or U.S. Dollar (“USD”). The loan consists of RMB 50 million for working capital borrowings in Chinese yuan and RMB 50 million for borrowing in USD. The loan is collateralized by eligible accounts receivable. On April 19, 2021, the JV Company borrowed RMB 50.0 million, or \$7.7 million based on the currency exchange rate between RMB and USD on April 19, 2021, at an interest rate of 5.1% per annum. The interest payments are due quarterly with the entire principal due no later than May 19, 2022. On June 16, 2021 and June 24, 2021, the JV Company borrowed \$4.2 million and \$3.5 million at interest rate of 2.7% per annum, and repaid in full during the quarter ended September 30, 2021. On August 17, 2021 and September 22, 2021, the JV Company also borrowed \$4.2 million and \$3.4 million at interest rate of 2.7% per annum, with principal due on November 9, 2021 and December 12, 2021, respectively. As of September 30, 2021, the total outstanding balance of these loans was \$15.3 million.

On June 29, 2021, the JV Company entered into a 1Y-year loan agreement with China CITIC Bank in China to borrow a maximum of \$7.7 million. Interest payments are due on the 20th of each quarter commencing on September 20, 2021, and the

entire principal is due on June 29, 2022. As of September 30, 2021, the outstanding balance of this loan was \$7.7 million at an interest rate of 3.49% per annum.

Cash, cash equivalents and restricted cash

As of September 30, 2021 and June 30, 2021, we had \$255.0 million and \$204.8 million of cash, cash equivalents and restricted cash, respectively. Our cash, cash equivalents and restricted cash primarily consist of cash on hand, restricted cash, and short-term bank deposits with original maturities of three months or less. Of the \$255.0 million and \$204.8 million cash, cash equivalents and restricted cash, \$225.8 million and \$134.6 million, respectively, are deposited with financial institutions outside the United States.

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

	Three Months Ended September 30,	
	2021	2020
	(in thousands)	
Net cash provided by operating activities	\$ 80,607	\$ 9,848
Net cash used in investing activities	(23,911)	(11,337)
Net cash used in financing activities	(6,535)	(4,186)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(11)	1,997
Net increase (decrease) in cash, cash equivalents and restricted cash	\$ 50,150	\$ (3,678)

Cash flows from operating activities

Net cash provided by operating activities of \$80.6 million for the three months ended September 30, 2021 resulted primarily from net income of \$21.4 million and non-cash expenses of \$19.0 million, partially offset by net changes in assets and liabilities using cash of \$40.1 million. The non-cash expenses of \$19.0 million primarily included \$13.7 million of depreciation and amortization expenses, \$4.6 million of share-based compensation expense, and \$0.7 million of deferred income taxes. The net changes in assets and liabilities of \$40.1 million were primarily due to a \$52.9 million increase in accrued and other liabilities, a \$2.1 million increase in accounts payable due to timing of payments, and a \$0.4 million increase in income taxes payable, partially offset by a \$3.5 million increase in accounts receivable as a result of higher revenue, a \$9.1 million increase in inventories due to a continued ramp of the JV Company, and a \$2.6 million increase in other current and long-term assets due to increase in advance payments to suppliers.

Net cash provided by operating activities of \$9.8 million for the three months ended September 30, 2020 resulted primarily from net income of \$8.8 million and non-cash expenses of \$15.4 million, partially offset by net changes in assets and liabilities using net cash of \$14.3 million. The non-cash expenses of \$15.4 million primarily included \$12.5 million of depreciation and amortization expenses and \$2.9 million of share-based compensation expense. The net changes in assets and liabilities using cash of \$14.3 million were primarily due to a \$13.0 million increase in accounts receivable as a result of better-than-expected revenue, a \$2.2 million increase in inventories due to a continued ramp of the JV Company, and a \$1.0 million increase in other current and long-term assets due to increase in advance payments to vendors, and a \$0.8 million decrease in accrued and other liabilities, partially offset by a \$1.9 million increase in accounts payable due to timing of payments, and a \$0.7 million increase in income taxes payable.

Cash flows from investing activities

Net cash used in investing activities of \$23.9 million for the three months ended September 30, 2021 was primarily attributable to purchases of property and equipment of \$8.4 million for the JV Company and purchases of property and equipment of \$16.6 million for other than the JV Company, net of government grants of \$1.1 million.

Net cash used in investing activities of \$11.3 million for the three months ended September 30, 2020 was primarily attributable to \$11.3 million purchases of property and equipment, including \$3.4 million purchased by the JV Company.

Cash flows from financing activities

Net cash used in financing activities of \$6.5 million for the three months ended September 30, 2021 was primarily attributable to \$9.7 million in repayments of borrowings, \$4.2 million in payment of finance lease obligations, and \$0.2 million in common shares acquired to settle withholding tax related to vesting of restricted stock units, partially offset by \$7.6 million proceeds from borrowings.

Net cash used in financing activities of \$4.2 million for the three months ended September 30, 2020 was primarily attributable to \$11.1 million in repayments of borrowings, \$4.0 million in payment of finance lease obligations, and \$0.4 million in common shares acquired to settle withholding tax related to vesting of restricted stock units, partially offset by \$11.3 million proceeds from borrowings.

Commitments

See Note 10 of the Notes to the Condensed Consolidated Financial Statements contained in this Quarterly Report on Form 10-Q for a description of commitments.

Off-Balance Sheet Arrangements

As of September 30, 2021, we had no material off-balance sheet arrangements as defined in Regulation S-K 303(a)(4)(ii) arrangements.

Contractual Obligations

There were no material changes outside of our ordinary course of business in our contractual obligations from those disclosed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2021.

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, 2021, filed with the SEC on August 30, 2021.

ITEM 4. CONTROLS AND PROCEDURES

Management's Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, (the "Exchange Act")), as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of September 30, 2021 have been designed and are functioning effectively to provide reasonable assurance that the information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the three months ended September 30, 2021 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

As previously disclosed, the DOJ commenced an investigation into the Company's compliance with export control regulations relating to its business transactions with Huawei and its affiliates ("Huawei"), which were added to the "Entity List" by the DOC in May 2019. The Company is cooperating fully with federal authorities in the investigation. The Company has continued to respond to inquiries and requests from DOJ for documents and information relating to the investigation, and the matter is currently pending at DOJ, and DOJ has not provided the Company with any specific timeline or indication as to when the investigation will be concluded or resolved. In connection with this investigation, DOC previously requested the Company to suspend shipments of its products to Huawei. The Company complied with such request, and the Company has not shipped any product to Huawei after December 31, 2019. The Company continues to work with DOC to resolve this issue and requested DOC to grant permission to reinstate the Company's shipments to Huawei. As part of this process and in response to DOC's request, the Company provided certain documents and materials relating to the Company's supply chain and shipment process to DOC, and DOC is currently reviewing this matter. DOC has not informed the Company of any specific timeline or schedule under which DOC will provide a response to the Company's request.

On March 19, 2020, Darryl Gray, a stockholder of the Company (the "Plaintiff"), filed a putative class action complaint in the United States District Court for the Southern District of New York (the "Gray Action"), alleging that the Company and its management members made material misstatements or omissions regarding the Company's business and operations, including its export control practices relating to business transactions with Huawei and its affiliates. The Gray Action asserts claims under Section 10(b) of the Exchange Act against the Company, its Chief Executive Officer and Chief Financial Officer (collectively, the Defendants"), as well as claims under Section 20(a) of the Exchange Act against the Chief Executive Officer and Chief Financial Officer. Among other remedies, the Gray Action seeks to recover compensatory and other damages as well as attorney's fees and costs.

On May 18, 2020, Plaintiff moved for an order appointing him as Lead Plaintiff pursuant to Section 21D of the Exchange Act and approving Glancy Prongay & Murray LLP as Lead Counsel for the putative class (the "Motion"). On July 1, 2020, the Court entered an order granting the Motion and requiring that: (i) Lead Plaintiff file an amended complaint or designate the current complaint as operative within sixty days; (ii) Defendants answer the complaint or otherwise move within sixty days of such filing or designation; (iii) Lead Plaintiff file an opposition, if any, within 45 days; and (iv) Defendants file a reply, if any, forty-five days thereafter. On August 28, 2020, Plaintiff filed an amended complaint asserting the same claims against the Defendants, and adding the Company's Executive Vice President of Product Line as a defendant on both claims. On October 27, 2020, the Defendants moved to dismiss the action in its entirety. Plaintiff filed his opposition on December 11, 2020 and Defendants filed their reply brief on January 25, 2021. On September 27, 2021, the Court entered an opinion and order granting Defendants' motion and dismissing the amended complaint in its entirety. In so doing, the Court found, among other things, that Plaintiff failed adequately to allege that any of AOS's indirect sales to Huawei were illegal, and therefore none of the Company's statements regarding its positive performance or its efforts to contend with a difficult geopolitical climate and trade tensions could plausibly be seen as "inaccurate, incomplete, or misleading." The Court's order allowed Plaintiff an opportunity to file a second amended complaint by October 27, 2021, attempting to cure the various deficiencies, barring which the matter would be dismissed with prejudice. As of that date, however, no such filing was made and the Company anticipates that the matter will be dismissed with prejudice.

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, 2020, filed with the SEC on August 30, 2021, contains risk factors identified by the Company. Except as noted below, there have been no material changes to the risk factors we previously disclosed in our filings with the SEC. 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.

Disruptions, damages or destructions to our manufacturing facilities, machinery and equipment may materially and adversely affect our business operations

The success of our business depends on the continuing operations of our Oregon fab and our Chongqing fabrication facility operated by the JV Company. The operations of our fabrication facilities may be affected by various factors, including: (i) fire, flood or power failure at our production facilities or the buildings adjacent to our production sites; (ii) breakdown of machinery and equipment at our production facilities; or (iii) scheduled maintenance of our machinery and equipment. The occurrence of any unanticipated or prolonged disruptions, damage or destruction to our production facilities and machinery and equipment may affect our ability to produce and deliver products to our customers in a timely manner, which may adversely affect our business operation and financial results.

Our operations at our Chongqing fabrication facility operated by the JV Company are subject to operational risks, including but not limited to disruption of water or power supply and breakdown or malfunction of our machinery, which could result in delay, temporary suspension, permanent, partial or complete shutdowns of our production. For example, the recent electric power shortage in China prompted some local government to impose rationing of power supply that may result in factory shutdown due lack of continuous supply of electrical power. Additionally, local governments in certain provinces in China have raised prices or extended peak-demand periods during which prices are higher to address the issue and others have announced plans to do so in the future, which could increase the cost of power supplies.

Although our Chongqing fabrication facility has not experienced significant power supply disruption and is currently not subject to rationing of power supply, we cannot assure you that the government authorities will not enforce power restriction or shutdowns on the facility in the future. In the event that we become subject to such restrictions, we may be required to suspend or cease the production activities which may adversely affect our production schedule and the ability to fulfill the customer's orders which in turn, adversely affect our business and financial condition. In addition, as a result of disruption to our operations, our production volume and the utilization rate of our production plants may be affected, which may result in a drop in our gross profit margin and profitability.

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

In September 2017, the Board of Directors approved a repurchase program (the “Repurchase Program”) that allowed us to repurchase our common shares from the open market pursuant to a pre-established Rule 10b5-1 trading plan or through privately negotiated transactions up to an aggregate of \$30.0 million. The amount and timing of any repurchases under the Repurchase Program depend on a number of factors, including but not limited to, the trading price, volume and availability of our common shares. There is no guarantee that such repurchases under the Repurchase Program will enhance the value of our shares. Shares repurchased under this program are accounted for as treasury shares and the total cost of shares repurchased is recorded as a reduction of shareholders' equity. During the three months ended September 30, 2021, we did not repurchase any shares under the Repurchase Program. As of September 30, 2021, approximately \$13.4 million remained available under the Repurchase Program.

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	<u>Amended and Restated Director Compensation Policy</u>
31.1	<u>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.</u>
31.2	<u>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.</u>
32.1	<u>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.</u>
32.2	<u>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.</u>
101.INS	Inline XBRL Instance
101.SCH	Inline XBRL Taxonomy Extension Schema
101.CAL	Inline XBRL Taxonomy Extension Calculation
101.DEF	Inline XBRL Taxonomy Extension Definition
101.LAB	Inline XBRL Taxonomy Extension Labels
101.PRE	Inline XBRL Taxonomy Extension Presentation
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

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.

November 5, 2021

ALPHA AND OMEGA SEMICONDUCTOR LIMITED

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

ALPHA AND OMEGA SEMICONDUCTOR LIMITED

AMENDED AND RESTATED NON-EMPLOYEE DIRECTOR COMPENSATION POLICY

This sets forth the Amended and Restated Non-employee Director Compensation Policy (the “Policy”) of Alpha and Omega Semiconductor Limited (the “Company”), as adopted by the Board of Directors of the Company (the “Board”), which shall remain in effect until amended, replaced or rescinded by further action of the Board. The cash compensation and equity awards described in this Policy shall be paid or be made, as applicable, automatically and without further action of the Board, to each member of the Board who is not an employee of the Company or any subsidiary (each, a “Non-Employee Director”) who may be eligible to receive such cash compensation or equity awards. Members of the Board shall not be entitled to receive any meeting fees (other than any special meeting fees described below) or other compensation for service on the Board.

1. **Annual Retainer.**

Amount of Retainer. Each Non-Employee Director serving as a member of the Board at the beginning of the Company’s fiscal year (starting with the 2021 fiscal year) shall be eligible to receive an annual retainer of \$40,000 for service on the Board, provided, however, that the lead independent director shall be eligible to receive an additional annual return of \$15,000 (effective May 7, 2015). Each Non-Employee Director serving as the chairperson of a committee of the Board shall be eligible to receive an additional retainer as follows: Audit Committee - \$25,000; Compensation Committee - \$15,000; and Nominating and Governance Committee - \$15,000. Each Non-Employee Director serving as a member of a committee of the Board shall be eligible to receive an additional retainer as follows: Audit Committee - \$12,000; Compensation Committee - \$7,500; Nominating and Governance Committee - \$5,000; and Special Litigation Committee - \$25,000, except that the chairperson of the Special Litigation Committee shall be eligible to receive a retainer of \$100,000. Each Non-Employee Director serving as the Lead Director shall be eligible to receive an additional retainer of \$15,000.

Payment. The annual retainer shall be paid by the Company in quarterly installments as soon as practicable after the end of each of the Company’s fiscal quarters for which the Non-Employee Director shall have served. In the event a Non-Employee Director does not serve as a Non-Employee Director, or in the applicable committee positions, for an entire fiscal quarter, the retainer paid to such Non-Employee Director shall be prorated for the portion of such fiscal quarter actually served as a Non-Employee Director, or in such positions, as applicable.

2. **Special Meeting Fees.** Non-Employee Directors will not receive any additional compensation for attending regular Board or committee meetings. However, with respect to special meetings of the Board or a committee, each Non-Employee Director will receive \$2,000 for a meeting attended in person and \$1,000 for a meeting attended via teleconference. Any such

meeting fees shall be paid as soon as practicable after the end of the fiscal quarter in which such meeting is held. The Board shall determine the meetings eligible for such special fees and the Board may at its discretion authorize additional compensation for services in connection with other events and transactions.

3. **Equity Compensation.**

Annual Grant. Each individual who is elected by the Company's shareholders to serve as a Non-Employee Director at the Company's Annual Shareholders Meeting (starting with the 2021 Annual Shareholders Meeting) and each individual who is to continue to serve as a Non-Employee Director following such meeting whether or not that individual is standing for re-election at that meeting, shall be granted on the date of such meeting, an award of restricted share units under the 2018 Omnibus Incentive Plan (the "Plan").

Each such award shall be subject to the following terms:

Number of Shares: The number of shares subject to each such annual award will be determined by dividing \$125,000 by the Average Per Share Price, up to a maximum of 10,000 shares. The Average Per Share Price for an award means the average closing price per share of common stock over the 90 day-period immediately prior to the date of grant of the award.

Vesting: The award shall vest in four (4) equal installments upon the Non-Employee Director's completion of each quarter of Board service following the grant date; provided, however, that if the Company's Annual Shareholders Meeting for the year following the year of grant occurs prior to the end of the one-year period measured from the grant date, the last quarterly installment shall become vested upon the date of such subsequent Annual Shareholders Meeting, provided, the Non-Employee Director continues in Board service until such date. Notwithstanding the foregoing, the award (to the extent outstanding) shall vest in full (i) upon the Non-Employee Director's termination of Board service by reason of death or Permanent Disability (as defined in the Plan) and (ii) immediately prior to the consummation of a Change in Control (as defined in the Plan).

Issuance of Shares: Shares that vest under a restricted stock unit award shall be issued on the earlier of (i) the date of the Annual Shareholders Meeting that is coincident with or next following the applicable vesting date or (ii) the date of the Non-Employee Director's termination of Board service. Shares that vest upon a Change in Control shall be issued as soon as practicable following the Change in Control.

New Directors. In the event a new Non-Employee Director is elected or appointed to the Board on a date other than at the Company's Annual Shareholders Meeting, such Non-Employee Director shall be granted on the date of such election or appointment, an award of restricted share units for a number of shares determined by dividing \$125,000 as pro-rated based on the period from the date of appointment or election to the anticipated date of the next Annual Shareholders Meeting by the Average Per Share Price (as determined

based on the grant date of the award to such Non-Employee Director), provided such individual has not previously been in the employ or service of the Company. The award shall vest on the same dates that the annual grants made at the preceding Annual Shareholders Meeting vest with the number of shares vesting on each vesting date based on the period of service.

4. **Expense Reimbursement.** All Non-Employee Directors shall be entitled to reimbursement from the Company for their reasonable expenses of travel (including airfare and ground transportation) to and from meetings of the Board or a committee, and reasonable lodging and meal expenses incident thereto.

**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: November 5, 2021

/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: November 5, 2021

/s/ Yifan Liang

 Yifan Liang
 Chief Financial Officer and Corporate Secretary

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

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

- a. the Quarterly Report of the Company on Form 10-Q for the fiscal quarter ended September 30, 2021 (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: November 5, 2021

/s/ Mike F. Chang

Mike F. Chang
Chief Executive Officer

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

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

- a. the Quarterly Report of the Company on Form 10-Q for the fiscal quarter ended September 30, 2021 (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: November 5, 2021

/s/ Yifan Liang

Yifan Liang
Chief Financial Officer and Corporate Secretary