

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

FORM 10-K

(MARK ONE)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended June 30, 2023

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)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Shares, \$0.002 par value per share	AOSL	The NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>	Non-accelerated filer	<input type="checkbox"/>
Smaller reporting company	<input type="checkbox"/>	Emerging growth company	<input type="checkbox"/>	(Do not check if a smaller reporting 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.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

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

The aggregate market value of the voting shares held by non-affiliates of the registrant as of December 31, 2022 was approximately \$654 million based on the closing price of the registrant's common share as reported on the NASDAQ Global Select Market on December 31, 2022 (the last business day of the registrant's most recently completed second fiscal quarter). The common shares of the registrant held by each executive officer and director and certain affiliated shareholders who beneficially owned 10% or more of the outstanding common stock of the registrant have been excluded in such calculation as such persons and entities may be deemed to be affiliates of the registrant. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

There were 27,655,826 shares of the registrant's common shares outstanding as of July 31, 2023.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the registrant's 2023 Annual General Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K to the extent stated herein. The Definitive Proxy Statement is expected to be filed within 120 days of the registrant's fiscal year ended June 30, 2023.

Alpha and Omega Semiconductor Limited
Form 10-K
For the Year Ended June 30, 2023
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PART I

Item 1. Business

Forward Looking Statements

This Annual Report on Form 10-K and the documents incorporated herein by reference contain 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, which are subject to the “safe harbor” created by those sections. Forward-looking statements are based on our management's beliefs and assumptions and on information currently available to our management. In some cases, you can identify forward-looking statements by terms such as “may,” “will,” “should,” “could,” “intend,” “would,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “project,” “predict,” “potential” and similar expressions intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors, which may cause our actual results, performance, time frames or achievements to be materially different from any future results, performance, time frames or achievements expressed or implied by the forward-looking statements. We discuss many of these risks, uncertainties and other factors in this Annual Report on Form 10-K in greater detail in Item 1A, “Risk Factors.” Given these risks, uncertainties and other factors, you should not place undue reliance on these forward-looking statements. Also, these forward-looking statements represent our estimates and assumptions only as of the date of this filing. You should read this Annual Report on Form 10-K in its entirety and with the understanding that our actual future results may be materially different from what we expect. We hereby qualify our forward-looking statements by these cautionary statements. Except as required by law, we assume no obligation to update these forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

Overview

We are a designer, developer and global supplier of a broad portfolio of power semiconductors. Our portfolio of power semiconductors includes approximately 2,600 products, and has grown significantly with the introduction of over 60 new products in the fiscal year ended June 30, 2023, and over 130 and 160 new products in the fiscal year ended June 30, 2022 and 2021, respectively. 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 918 patents and 45 patent applications in the United States as of June 30, 2023. We also have a total of 980 foreign patents, which were based primarily on our research and development efforts through June 30, 2023. We differentiate ourselves by integrating our expertise in technology, design, and advanced packaging to optimize product performance and cost. Our portfolio of products targets high-volume applications, including portable computers, graphics cards, home appliances, power tools, smart phones, battery packs, consumer and industrial motor controls and power supplies for TVs, computers, servers and telecommunications equipment.

During the fiscal year ended June 30, 2023, we continued our diversification strategy 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, portfolio expanded significantly across a full range of voltage applications. We also developed new technologies and products designed to penetrate into markets beyond our MOSFET computing base, including the consumer, communications and industrial markets, Insulated Gate Bipolar Transistors, or IGBTs for the home appliance market, as well as power ICs for next generation computing and gaming applications.

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 around the world. We operate an 8-inch wafer fabrication facility located in Hillsboro, Oregon (the “Oregon fab”), which is critical for us to accelerate proprietary technology development, new product introduction and improve our financial performance. We also expanded and upgraded our manufacturing capabilities at the Oregon Fab in 2023. To meet the market demand for the more mature high volume products, we also utilize the wafer manufacturing capacity of selected third party foundries. We utilize both in house assembly and test facilities in China as well as subcontractors 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.

On March 29, 2016, we 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 in the Liangjiang New Area of Chongqing, China (the “JV Transaction”). As of December 1, 2021, we owned 50.9%, and the Chongqing Funds owned 49.1%, of the equity interest in the JV Company. The Joint Venture

was accounted under the provisions of the consolidation guidance since we had controlling financial interest until December 1, 2021. As of December 2, 2021, we ceased having control over the JV Company. Therefore, we deconsolidated the JV Company as of that date. Subsequently, we have accounted for its investment in the JV Company using the equity method of accounting. As of June 30, 2023, the percentage of outstanding JV equity interest beneficially owned by the Company was reduced to 42.2%. Such reduction reflects (i) the sale by the Company of approximately 2.1% of the outstanding JV equity interest which resulted in the deconsolidation of the JV Company, (ii) additional sale by the Company of approximately 1.1% of outstanding JV equity interest in December 2021, (iii) the adoption of an employee equity incentive plan and the issuance of additional equity interest equivalent to 3.99% of the JV Company to investors in exchange for cash in December 2021, and (iv) issuance of additional equity interest of the JV to investors in January 2022.

We were incorporated in Bermuda on September 27, 2000 as an exempted limited liability company. The address of our registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The address of our U.S. office is Alpha and Omega Semiconductor Incorporated, 475 Oakmead Parkway, Sunnyvale, CA 94085. The telephone number of our U.S. office is (408) 830-9742. We have incorporated various wholly-owned subsidiaries in different jurisdictions. Please refer to Exhibit 21.1 to this Form 10-K for a complete list of our subsidiaries.

Our industry

Semiconductors are electronic devices that perform a variety of functions, such as converting or controlling signals, processing data and delivering or managing power. The functionality and performance of semiconductors have generally increased over time, while size and cost have generally decreased. These advances have led to a proliferation of more complex semiconductors being used in a wide variety of consumer, computing, communications and industrial markets and have contributed to the growth of the semiconductor industry. Regulations governing energy efficiency have accelerated this process in many applications.

Analog semiconductors

The semiconductor industry is segmented into analog and digital. Analog semiconductors process light, sound, motion, radio waves and electrical currents and voltages. In contrast, digital semiconductors process binary signals represented by a sequence of ones and zeros.

As a result of these fundamental differences, the analog semiconductor industry is distinct from the digital semiconductor industry in terms of the complexity of design and the length of product cycle. Improper interactions between analog circuit elements can potentially render an electronic system inoperable. Experienced engineers engaged in the design process are necessary because computer-aided design cannot fully model the behavior of analog circuitry. Therefore, experienced analog engineers with requisite knowledge are in great demand but short supply worldwide. In addition, analog semiconductors tend to have a longer product life cycle because original design manufacturers, or ODMs and original equipment manufacturers, or OEMs typically design the analog portions of a system to span multiple generations of products. Once designed into an application, the analog portion is rarely modified because even small changes to the analog portion can trigger unanticipated consequences in other components, resulting in system instability.

Power semiconductors

Power semiconductors are a subset of the analog semiconductor sector with their own set of characteristics unique to system power architecture and function. Power semiconductors transfer, manage and switch electricity to deliver the appropriate amount of voltage or current to a broad range of electronic systems and also protect electronic systems from damage resulting from excessive or inadvertent electrical charges.

Power semiconductors can be either discrete devices, which typically comprise only a few transistors or diodes, or ICs, which incorporate a greater number of transistors. The function of power discrete devices is power delivery by switching, transferring or converting electricity. Power transistors comprise the largest portion of the power discrete device market. Power ICs, sometimes referred to as power management ICs, perform power delivery and power management functions, such as controlling and regulating voltage and current and controlling power discrete devices.

The power semiconductor market has been driven by several key factors in recent years. The proliferation of computer and consumer electronics, such as notebooks, tablets, smart phones, flat panel displays and portable media players created the need for sophisticated power management that increases power efficiency and extends battery life. The evolution of these products is characterized by increased functionality, thinner and smaller form factors and decreasing prices. Our Power IC and low voltage (5V-40V) MOSFET products address these markets. In the area of AC-DC power supplies for electronic

equipment, data centers and servers, the market is characterized by a continuous demand for energy conservation through higher efficiency, which drives the market for our medium voltage (40V-400V) and high voltage (500V-1000V) MOSFET products. The increased application of power semiconductors to control motors in white goods and industrial applications is driving demand for Insulated Gate Bipolar Transistors, or IGBTs. IGBTs are also being used in renewable energy and automotive applications.

The evolution toward smaller form factors and complex power requirements in the low voltage areas has driven further integration in power semiconductors, resulting in power ICs that incorporate the functionalities of both power management and power delivery in a single device. Power ICs can be implemented by incorporating all necessary power functions either on one piece of silicon or multiple silicon chips encapsulated into a single device. Additionally, advancements in semiconductor packaging technology enables increased power density and shrinking form factors.

Power semiconductor suppliers develop and manufacture their products using various approaches which tend to fall across a wide spectrum of balancing cost savings with proprietary technology advantages. At one end of the spectrum are integrated design manufacturers, or IDMs, which own and operate the equipment used in the manufacturing process and design and manufacture products at their in-house facilities. IDMs exercise full control over the implementation of process technologies and have maximum flexibility in setting priorities for production and delivery schedules. At the other end of the spectrum are completely-outsourced fabless semiconductor companies, which rely entirely on off-the-shelf technologies and processes provided by manufacturing partners. These companies seek to reduce or eliminate fixed costs by outsourcing both product manufacturing and development of process technologies to third parties. Our model balances between technological advancement and cost effectiveness by using a dedicated in-house technology research and development team to drive rapid new product developments, while utilizing both in-house and third-party foundry capacity for our products. This is particularly important in the development of power semiconductor products due to the unique nature of their technology. While digital technologies are highly standardized in leading foundries, power semiconductor technologies tend to be more unique as they seek to accommodate a wider range of voltage applications. Accordingly, third-party foundries, which are primarily designed and established for digital technologies, may have limited capabilities when it comes to the development of new power semiconductor technologies.

Our strategies

AOS seeks to advance our position as a designer, developer and global supplier of a broad portfolio of power semiconductors. We have adopted strategies that allow us to balance the development of proprietary technology at in-house fabrication and packaging facilities and also utilize the capacity and manufacturing capability of third-party foundries and subcontractors. This enables us to bring new products to market faster, and improve our financial performance in the long run. This model also allows us to respond more quickly to our customer demands, enhances relationships with strategic customers, provides flexibility in capacity management, and enables geographic diversification of our wafer supply chain. Our in-house manufacturing capability allows us to retain a higher level of control over the development and application of our proprietary process technology, thereby reducing certain supply chain and operational risks. In addition, we enhanced the manufacturing capability and capacity of our Oregon Fab by investing in new equipment and expanding factory facilities, which we expect will have a positive impact on our future new product development and revenue. We intend to continue exploring opportunities to expand our manufacturing capabilities, including acquisition of existing facilities, formation of joint ventures or partnerships with third parties or applying for government funding or grants available in the semiconductor industry.

Although our largest end-market is the personal computing (“PC”) market, we have successfully diversified our business by expanding into other markets, including consumer, communications, and industrial markets. While we have made progress in our diversification and expansion into additional applications, we continue to support and grow our PC business by expanding bill-of-material content, gaining market share, and acquiring new customers.

We plan to further expand the breadth of our product portfolio to increase our total bill-of-materials within an electronic system and to address the power requirements of additional electronic systems. Our product portfolio currently consists of approximately 2,600 products and we have introduced over 60 new products in this past fiscal year. We will continue to leverage our expertise to further increase our product lines, including higher performance power ICs, IGBTs and high, medium and low voltage MOSFETs, in order to broaden our addressable market and improve our margin profile. This includes expanding our power IC portfolio with multiphase controllers and smart power stages to address advanced System on Chip (SoC) products used in personal computing, graphics cards, and gaming.

Leverage our power semiconductor expertise to drive new technology platforms

We believe that the ever-increasing demand for power efficiency in power semiconductors requires expertise in and a deep understanding of the interrelationship among device physics, process technologies, design and packaging. We also

believe that engineers with experience and understanding of these multiple disciplines are in great demand but short supply. Within this context, we believe that we are well positioned to be a leader in providing total power management solutions because of our extensive pool of experienced scientists and engineers and our strong IP portfolio. Accordingly, we intend to leverage our expertise to increase the number of power discrete technology platforms and power IC designs, including future digital power controller products that are currently under development, to expand our product offerings and deliver complete power solutions for our targeted applications. In addition, our ability to develop new technology is enhanced by the operation of our own manufacturing facilities in Oregon and Chongqing.

Increase direct relationships and product penetration with OEM and ODM customers

We have developed direct relationships with key OEMs that are responsible for branding, designing and marketing a broad array of electronic products, as well as ODMs that have traditionally been responsible for manufacturing these products. While OEMs typically focus design efforts on flagship products, ODMs are increasingly responsible for designing portions, or entire systems, of the products they manufacture for OEMs. In addition, several ODMs are beginning to design, manufacture and brand their own proprietary products which are sold directly to consumers. We intend to strengthen our existing relationships and form new ones with both OEMs and ODMs by aligning our product development efforts with their product requirements, thereby increasing the number of our products used within their systems, and leveraging relationships to penetrate other products. In addition, we are focusing our research and development efforts to respond more directly to market demand by designing and developing new products based on feedback from our customers, which also allows us to reduce time-to-market and sales cycles.

Leverage global business model for cost-effective growth

We intend to continue to leverage our global resources and regional strengths. We will continue to deploy marketing, sales and technical support teams in close proximity to our end customers. We will further expand and align our technical marketing and application support teams along with our sales team to better understand and address the needs of end customers and end-market applications, in particular for those with the new technology platforms developed in this past year and in the future. This will assist us in identifying and defining new technology trends and products and to help us gain additional design wins. While we no longer retain a controlling interest in the JV Company, we continue our strong relationship with the JV Company to support our manufacturing capacity. Also, we entered into an agreement with the JV Company, pursuant to which the JV Company agrees to provide us with a monthly wafer production capacity guarantee, subject to future increase when the JV Company's production capacity reaches certain specified levels. In addition, we continue to seek potential partners and collaborators to develop new technologies and products, as well as to explore other strategic transactions that will enable us to expand our manufacturing capacity and establish a global footprint.

Our products

We have created a broad product portfolio consisting of two major categories: power discretes and power ICs that serve the large and diverse analog market for power semiconductors.

Our power discrete products consist of low, medium and high voltage power MOSFETs. Our low voltage MOSFET series is based on our proprietary silicon and package technologies, with deep application know-how in various markets. We have precisely defined technology platforms to address different requirements from various applications. Our medium voltage MOSFETs provide optimized performance with high efficiency, high robustness and high reliability, and are widely used in applications such as TV backlighting, telecom power supplies, and industrial applications. We expanded our high voltage 600V and 700V MOSFET portfolio based on our aMOS5 technology platform in order to address demanding consumer and industrial applications. Our high-voltage portfolio includes our proprietary insulated-gate bipolar transistor ("IGBT") technology, which we provide highly robust and easy-to-use solutions for industrial motor control and white goods applications. We have also deployed our 1200V SiC (Silicon carbide) products based on our AlphaSiC platform, designed to address high efficiency, high density industrial applications such as solar inverters, UPS, and battery management systems.

Our power ICs deliver power as well as control and regulate the power management variables, such as the flow of current and level of voltage. Our DrMOS family of products continue to grow as we paired our latest high performance MOSFET silicon with our latest Driver IC technologies. We continue to expand our EZBuck power IC family with products that feature lower on-resistance, less power consumption, smaller footprint and thermally enhanced packages. While we derive the majority of our revenue from the sale of power discrete products, sale of power ICs continued to gain traction during the past years. Our Type C smart load switch product line has also expanded as it offers reverse blocking capability, designed to protect applications against high voltage exposure.

The following table lists our product families and the principal end uses of our products:

Product Family	Description	Product Categories within Product Type	Typical Application
Power Discretes	Low on-resistance switch used for routing current and switching voltages in power control circuits High power switches used for power circuits	DC-DC for CPU/GPU DC-AC conversion AC-DC conversion Load switching Motor control Battery protection Power factor correction	Smart phone chargers, battery packs, notebooks, desktop and servers, data centers, base stations, graphics card, game boxes, TVs, AC adapters, power supplies, motor control, power tools, E-vehicles, white goods and industrial motor drives, UPS systems, solar inverters and industrial welding
Power ICs	Integrated devices used for power management and power delivery	DC-DC Buck conversion DC-DC Boost conversion Smart load switching DrMOS power stage	Flat panel displays, TVs, Notebooks, graphic cards, servers, DVD/Blu-Ray players, set-top boxes, and networking equipment
	Analog power devices used for circuit protection and signal switching	Transient voltage protection Analog switch Electromagnetic interference filter	Notebooks, desktop PCs, tablets, flat panel displays, TVs, smart phones, and portable electronic devices

Power discrete products

Power discretes are used across a wide voltage and current spectrum, requiring high efficiency and reliability under harsh conditions. Due to the diverse nature of end-market applications, we market both general purpose MOSFETs that are used in multiple applications as well as application specific MOSFETs.

Our current power discrete product line includes industry standard trench MOSFETs, SRFETs, XSFET, electrostatic discharge, protected MOSFETs, high and mid-voltage MOSFETs and IGBTs.

Power IC products

In addition to the traditional monolithic or single chip design, we employ a multi-chip approach for the majority of our power ICs. This multi-chip technique leverages our proprietary MOSFET and advanced packaging technologies to offer integrated solutions to our customers. This allows us to update product portfolios by interchanging only the MOSFETs without changing the power management IC, thereby reducing the time required for new product introduction and providing optimal solutions to our customers. We believe that our power IC products improve our competitive position by enabling us to provide higher power density solutions to our end customers than some of our competitors.

The incorporation of both power delivery and power management functions tends to make power ICs more application specific because these two functions have to be properly matched to a particular end product. We have local technical marketing and applications engineers who closely collaborate with our end customers to help ensure that power IC specifications are properly defined at the beginning of the design stage.

New Product Introduction

We introduced several new products based on our proprietary technology platform and continue to expand our product families.

During the fourth quarter of fiscal year of 2023, we released the 600V α MOS7™ Super Junction MOSFETs Family. These devices are designed to meet the high efficiency and high-density needs of servers, workstations, telecom rectifiers, solar Inverters, EV charging, motor drives and industrial power applications.

During the third quarter of fiscal year of 2023, we introduced a powerful duo of sink and source switches that can increase the power delivery capability of USB Type-C ports to 140W, paving the way for Type C extended power range (EPR)

implementations. The AOZ13937DI is suited for 28V Type C sinking applications while the AOZ15333DI is capable of Type C sourcing applications. These new switches are suited for 28V Type C EPR implementations in high-performance laptops, personal computers, monitors, docking, and other applications. Also, we introduced an extension to our active bridge driver, AlphaZBL™ family. The new device in this family is suitable for use in adapters for high-end laptops and televisions, as well as power supplies for Desktops, Game consoles, and Servers.

During the second quarter of fiscal year of 2023, we introduced our new industry-leading 650V and 750V SiC MOSFET platform for both industrial and automotive applications. The 650V SiC MOSFETs are ideal switching solutions for industrial applications such as solar inverters, motor drives, industrial power supplies, and new energy storage systems, while the AEC-Q101 qualified 750V SiC MOSFET line is targeted for the high-reliability needs in electric vehicle (EV) systems such as the on-board charger (OBC) and the main traction inverter. Also, we introduced an extension to our compact Smart Motor Module (SMM) family. Available in an ultra-compact, thermally enhanced 3mm x 3mm QFN-18L package, the highly integrated AOZ9530QV SMM is a half-bridge power stage with a slew of features and protections that simplify motor drive designs. The AOZ9530QV SMM is suitable for use in a large number of BLDC fan applications ranging from PC and server fans, seat cooling and home appliances. In addition, we released AONS30300, a 30V MOSFET with low on-resistance. The AONS30300 features a high Safe Operating Area (SOA) capability making it ideally suited for demanding applications such as hot swap and eFuse.

Distributors and customers

We have established direct relationships with key OEMs, including Dell Inc., Hewlett-Packard Company, Samsung Group, and Stanley Black & Decker, Inc., most of whom we serve through our distributors and ODMs. In addition, based on our historical design win activities, our power semiconductors are also incorporated into products sold to many other leading OEMs.

Through our distributors, we provide products to ODMs who traditionally are contract manufacturers for OEMs. As the industry has evolved, ODMs are increasingly responsible for designing portions, or entire systems, of the products they manufacture for the OEMs. In addition, several ODMs are beginning to design, manufacture and brand their own proprietary products, which they sell directly to consumers. Our ODM customers include Compal Electronics, Inc., Foxconn, Quanta Computer Incorporated, Wistron Corporation and Delta Electronics.

In order to take advantage of the expertise of end-customer fulfillment logistics and shorter payment cycles, we sell most of our products through distributors. In general, under our agreements with distributors, they have limited rights to return unsold merchandise, subject to time and volume limitations. As of June 30, 2023, 2022 and 2021, our two largest distributors were WPG Holdings Limited, or WPG, and Promate Electronic Co. Ltd., or Promate. Sales to WPG and Promate accounted for 35.6% and 21.6% of our revenue, respectively, for the fiscal year ended June 30, 2023, 39.7% and 24.6% of our revenue, respectively, for the fiscal year ended June 30, 2022, and 35.4% and 28.7% of our revenue, respectively, for fiscal year ended June 30, 2021, respectively.

Sales and marketing

Our marketing division is responsible for identifying high growth markets and applications where we believe our technology can be effectively deployed. We believe that the technical background of our marketing team, including application engineers, helps us better define new products and identify potential end customers and geographic and product market opportunities. For example, as part of our market diversification strategy, we have deployed and plan to recruit more, field application engineers, or FAEs, for our new product offerings, who provide real-time and local response to our end customers' needs. FAEs work with our end customers to understand their requirements and resolve technical problems. FAEs also strive to anticipate future customer needs and facilitate the design-in of our products into the end products of our customers. We believe this strategy increases our share of revenue opportunities within the applications we currently serve, as well as in new end-market applications.

Our sales team consists of sales personnel, field application engineers, customer service representatives and customer quality engineers who are responsible for key accounts. We strategically position our team near our end customers through our offices in Taipei, Hong Kong, Shenzhen, Shanghai, Qingdao, Suzhou, Tokyo, Seoul, Heilbronn, and Sunnyvale, California, complemented by our applications centers in Sunnyvale and Shanghai. In addition, our distributors and sales representatives assist us in our sales and marketing efforts by identifying potential customers, creating additional demand and promoting our products, in which case we may pay a sales commission.

Our sales cycle varies depending on the types of products and can range from six to eighteen months. In general, our traditional power discrete products in PC and TV applications progress more rapidly through the customer's design and marketing processes, and therefore they generally have a shorter sales cycle. In contrast, our newer Power IC and IGBT

products, used mostly in the power supply, home appliance and industrial applications, require a more extended design and marketing timeline and thus have a longer sales cycle. Typically, our sales cycle for all products comprises the following steps:

- identification of a customer design opportunity;
- qualification of the design opportunity by our FAEs through comparison of the power requirements against our product portfolio;
- delivery of a product sample to the end customer to be included in the customer's pre-production model with the goal of being included in the final bill of materials; and
- placement by the customer, or through its distributor, of a full production order as the end customer transitions to full volume production.

Competition

The power semiconductor industry is characterized by fragmentation with many competitors. We compete with different power semiconductor suppliers, depending on the type of product lines and geographical area. Our key competitors in power discretes and power ICs are primarily headquartered in the United States, Japan, Europe, China and Taiwan. Our major competitors in power discretes include Infineon Technologies AG, ON Semiconductor Corp., STMicroelectronics N.V., Toshiba Corporation, Diodes Incorporated and Vishay Intertechnology, Inc. Our major competitors for our power ICs include Monolithic Power Systems, Inc., ON Semiconductor Corp., Richtek Technology Corp., Semtech Corporation, Texas Instruments Inc. and Vishay Intertechnology, Inc.

Our ability to compete depends on a number of factors, including:

- success in expanding and diversifying our serviceable markets, and our ability to develop technologies and product solutions for these markets;
- capability to quickly develop and introduce proprietary technology and best-in-class products;
- performance and cost-effectiveness of our products relative to that of our competitors;
- ability and capacity to manufacture, package and deliver products in large volume on a timely basis at a competitive price;
- success in utilizing new and proprietary technologies to offer products and features previously not available in the marketplace;
- ability to recruit and retain analog semiconductor designers and application engineers; and
- ability to protect our intellectual property.

Some of our competitors have longer operating histories, more brand recognition, and significantly greater financial, technical, research and development, sales and marketing, manufacturing and other resources. However, we believe that we can compete effectively through our integrated and innovative technology platform and design capabilities, including our strong and extensive patent portfolio, strategic global business model, expanding suites of new products, diversified and broad customer base, and excellent on-the-ground support and quick time to market for our products.

Seasonality

As we provide power semiconductors used in consumer electronic products, our business is subject to seasonality. Our sales seasonality is affected by a number of factors, including global and regional economic conditions as well as the PC market condition, 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.

Backlog

Our sales are made primarily pursuant to standard purchase orders from distributors and direct customers. The amount of backlog to be shipped during any period depends on different factors, and all orders are subject to cancellation or modification,

usually with no penalty to customers. The quantities actually purchased by customers, as well as shipment schedules, are frequently revised to reflect changes in both the customers' requirements and in manufacturing availability. Therefore, our backlog at any point in time is not a reliable indicator of our future revenue.

Research and development

We view technology as a competitive advantage, and we invest significant time and capital in research and development to address the technology-intensive needs of our end customers. Our research and development expenditures for the fiscal years of 2023, 2022 and 2021 were \$88.1 million, \$71.3 million and \$63.0 million, respectively. Our research and development expenditures primarily consist 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 have research and development teams in Silicon Valley (Sunnyvale, California), Oregon, Texas, Arizona, Korea, Taiwan, and China. We believe that these diverse research and development teams enable us to develop leading edge technology platforms and new products. Our areas of research and development focus include:

Packaging technologies: Consumer demand for smaller and more compact electronic devices with higher power density is driving the need for advanced packaging technology. Our group of dedicated packaging engineers focuses on smaller form factors, and higher power output with efficient heat dissipation and cost-effectiveness. We have invested resources in developing and enhancing our proprietary packaging technologies, including the establishment of our in-house packaging and testing facilities. Our efforts to develop innovative packaging technologies continues to provide new and cost-effective solutions with higher power density to our customers. During the fiscal year ended June 30, 2023, we continued our diversification strategies by developing new silicon and packaging platforms to expand our SAM and offer higher performance products.

Process technology and device physics: We focus on specialized process technology in the manufacturing of our products, including vertical DMOS, Shielded Gate Trench, Trench field stop IGBTs, charge-balance high voltage MOSFETs, Schottky Diode and BCDMOS processes. Our process engineers work closely with our design team to deploy and implement our proprietary manufacturing processes at our Oregon Fab, the Chongqing Fab as well as the third-party foundries that fabricate our wafers. To improve our process technology, we continue to develop and enhance our expertise in device physics in order to better understand the physical characteristics of materials and the interactions among these materials during the manufacturing process.

New products and new technology platforms: We invest significantly in the development of new technology platforms and introduction of new products. Because power management affects all electronic systems, we believe that developing a wide portfolio of products enables us to target new applications in addition to expanding our share of power management needs within existing applications.

As a technology company, we will continue our significant investment in research and development in our low voltage, medium voltage, and high voltage power discretes, IGBT and power modules and power ICs by developing new technology platforms and new products that allow for improved product performance, higher efficiency packages and higher levels of integration.

Operations

The manufacture of our products is divided into two major steps: wafer fabrication and packaging and testing.

Wafer fabrication

Our Oregon Fab allows us to accelerate the development of our technology and products, as well as to provide better service to our customers. We allocate our wafer production between our in-house facility and third-party foundries. During the past three years, we have gradually reduced our reliance on third-party foundries and increased allocation of capacity to our Oregon Fab and Chongqing JV Fab. We entered into an agreement with the JV Company for the Chongqing Fab, pursuant to which the JV Company agrees to provide us with a monthly wafer production capacity guarantee, subject to future increase when the JV Company's production capacity reaches certain specified levels. Currently our main third-party foundry is Shanghai Hua Hong Grace Electronic Company Limited, ("HHGrace"), or formerly HHNEC, located in Shanghai. HHGrace has been manufacturing wafers for us since 2002. HHGrace manufactured 9.6%, 10.3% and 11.5% of the wafers used in our products for the fiscal years ended June 30, 2023, 2022 and 2021, respectively.

Packaging and testing

Completed wafers from the foundries are sent to our in-house packaging and testing facilities or to our subcontractors, where the wafers are cut into individual die, soldered to lead frames, wired to terminals and then encapsulated in protective packaging. After packaging, all devices are tested in accordance with our specifications and substandard or defective devices are rejected. We have established quality assurance procedures that are intended to control quality throughout the manufacturing process, including qualifying new parts for production at each packaging facility, conducting root cause analysis, testing for lots with process defects and implementing containment and preventive actions. The final tested products are then shipped to our distributors or customers.

Our in-house and wholly-owned packaging and testing facilities are located in Shanghai, China which handle most of our packaging and testing requirements for our products. In addition, the JV Company handles a portion of our packaging and testing requirement. We continuously increase the outsourcing portion of our packaging and testing requirements to other contract manufacturers to improve our ability to respond to changes in market demand. Our facilities have the combined capacity to package and test over 600 million parts per month and have available floor space for new package introductions. We believe our ability to package and test our products internally represents a strategic advantage as it protects our proprietary packaging technology, increases the rate of new package introductions, reduces operating expenses and ultimately improves our profit margins.

Quality assurance

Our quality assurance practices aim to consistently provide our end customers with products that are reliable, durable and free of defects. We strive to do so through design for manufacturing, and continuous improvement in our product design and manufacturing and close collaboration with our manufacturing partners. Our manufacturing operations in China and our manufacturing facility in Oregon are certified to the ISO9001 and IATF16949:2016. These Quality Management System certifications represent a recognition of our high quality assurance standards. Both ISO9001 and IATF16949:2016 are sets of criteria and procedures established by the International Organization of Standardization for developing a fundamental quality management system and focusing on continuous improvement, defect prevention and the reduction of variation and waste. Our products are also in compliance with Restrictions on the use of Hazardous Substances, or RoHS 3.0.

We maintain a supplier management and process engineering team in Shanghai that works with our third-party foundries and packaging and testing subcontractors to monitor the quality of our products, which is designed to ensure that manufacturing of our products is in strict compliance with our process controls, monitoring procedures and product requirements. We also conduct periodic reviews and annual audits to ensure supplier performance. For example, we examine the results of statistical process control systems, implement preventive maintenance, verify the status of quality improvement projects and review delivery time metrics. In addition, we rate and rank each of our suppliers every quarter based on factors such as their quality and performance. Our facility in Oregon integrates manufacturing process controls through our manufacturing execution system, coupled with wafer process controls that include monitoring procedures, preventative maintenance, statistical process control, and testing to ensure that finished wafers delivered will meet and exceed quality and reliability requirements. All materials used to manufacture wafers are controlled through a strict qualification process.

Our manufacturing processes use many raw materials, including silicon wafers, gold, copper, molding compound, petroleum and plastic materials and various chemicals and gases. We obtain our raw materials and supplies from a large number of sources. Although supplies for raw materials used by us are currently adequate, shortages could occur in various essential materials due to interruption of supply or increased demand in the industry.

Intellectual property rights

Intellectual property is a critical component of our business strategy, and we intend to continue to invest in the growth, maintenance and protection of our intellectual property portfolio. We own significant intellectual property in many aspects of power semiconductor technology, including device physics and structure, wafer processes, circuit designs, packaging, modules and subassemblies. We have also entered into intellectual property licensing agreements with other companies, including On Semiconductor Corp. and Giant Semiconductor Corporation, to use selected third-party technology for the development of our products, although we do not believe our business is dependent to any significant degree on any individual third-party license agreement. In February 2023, we entered into a license agreement with a customer to license our proprietary SiC technology and to provide 24-months of engineering and development services for a total fee of \$45 million, consisting of upfront fees and fees upon the achievement of specified engineering services and product milestones.

While we focus our patent efforts in the United States, we file corresponding foreign patent applications in other jurisdictions, such as China and Taiwan, when filing is justified by cost and strategic importance. The patents are increasingly

important to remain competitive in our industry, and a strong patent portfolio will facilitate the entry of our products into new markets. As of June 30, 2023, we had 918 patents issued in the United States, of which 911 were based on our research and development efforts and 7 were acquired, and these patents are set to expire between 2023 and 2041. We also had a total of 980 foreign patents, including 446 Chinese patents, 489 Taiwanese patents, 24 Korean patents, 4 Hong Kong patents, 5 Philippine patents, 8 Japanese patents, 2 Europe patent and 2 India patent as of June 30, 2023. Substantially all of our foreign patents were based on our research and development efforts. These foreign patents will expire in the years between 2023 and 2041. In addition, as of June 30, 2023, we had a total of 159 patent applications, of which 45 patents were pending in the United States, 81 patents were pending in China, 22 patents were pending in Taiwan and 11 patents were pending in other countries.

As our technologies are deployed in new applications and as we diversify our product portfolio based on new technology platforms, we may be subject to new potential infringement claims. Patent litigation, if and when instituted against us, could result in substantial costs and a diversion of our management's attention and resources. However, we are committed to vigorously defending and protecting our investment in our intellectual property. Therefore, the strength of our intellectual property program, including the breadth and depth of our portfolio, will be critical to our success in the new markets we intend to pursue.

In addition to patent protection, we also rely on a combination of trademark, copyright (including mask work protection), trade secret laws, contractual provisions and similar laws in other jurisdictions. We also enter into confidentiality and invention assignment agreements with our employees, consultants, suppliers, distributors and customers and seek to control access to, and distribution of, our proprietary information.

Human Capital Resources

As of June 30, 2023, we had 2,468 employees, of whom 781 were located in the United States, 1,502 were located in China, and 185 were located in other parts of the world. None of our employees is represented by a collective bargaining agreement. Notwithstanding our global footprint and various geographical locations, we have created an integrated workforce where employees worldwide work and collaborate as a team to advance our common business objectives, while retaining local and regional practices and cultures.

We are committed to providing a work environment in which our employees can realize fully their talents and develop successful careers. As our strength is in our people, we invest significantly in our employees by providing a wide range of training and development opportunities, including mentoring, coaching, tuition reimbursement, attendance at external seminars and professional conferences, and regular in-house training sessions on specific topics. We train our managers to become good stewards for our employees, balancing the need for quality of life with performance results. We believe that these efforts contribute to the growth and well-being of our employees, as more than 50% of our managerial positions are filled through promotions of existing employees.

We also keep our employees engaged and informed by providing periodic all-staff communications, and semi-annual performance reviews to ensure that efforts and results are aligned with our business and strategic corporate objectives. We value feedback from our employees and promote an open-door policy which encourages employees to have regular conversations with their managers to share feedback and express concerns. We also solicit employee feedback informally through regular employee interactions such as one on one or functional team staff meetings. In addition, we conduct employee satisfaction surveys at certain locations to help management identify areas that may require improvement. As part of the AOS tradition, we organize regular and seasonal social events, such as team building activities, annual appreciation picnics, and holiday parties, inviting both employees and their families to join. We believe these efforts enable us to build a strong and solid group of dedicated and happy employees who form the core of our human capital resource.

We are committed to providing an environment where employees from all walks of life are treated with respect, care and dignity. We adhere strictly to the Company's Code of Business Conduct and Ethics and other policies, and ensure that our employment practices respect human rights and comply with national, state and local regulatory requirements at all locations where we conduct business. To recruit new talent, we reach out to a broad range of sources, including employee referrals, on-line advertising, recruitment agencies, and other social media platforms to seek out the best qualified candidates regardless of their backgrounds. We are also focused on ensuring a diverse workforce, including our management team. Our Nominating and Corporate Governance Committee leads the effort in recruiting qualified directors to serve on our Board. Our employees appreciate and value the strength of our people-oriented culture and the benefits our workplace diversity brings.

We commit to a fair and living wage for all employees. We offer competitive compensation and benefits packages for our employees that include a combination of base salary, annual bonus, discretionary bonus for outstanding achievements, an employee share purchase plan, time-based and performance-based long-term equity compensation. Our equity related compensation programs are designed to motivate and incentivize our employees and align their rewards to financial and other business performance goals, while increasing our shareholder value. We have an established Employee Recognition Award program which is regularly utilized to recognize the outstanding achievements of employees and teams that go above and beyond to achieve AOS business goals. In addition, we have engaged nationally-recognized outside independent compensation

consulting firms to independently evaluate the appropriateness and effectiveness of compensation for our executives and other officers and to provide benchmarks for executive compensation as compared to peer companies.

The health and safety of our employees are paramount to our company. While the COVID-19 global health emergency has ended, COVID-19 and other infectious diseases remain a threat to the health and safety of employees. As such, we continue to monitor and follow requirements and guidance related to COVID-19 prevention in the workplace published by applicable public health agencies in various jurisdictions in which we operate. In addition, we have policies and procedures in place to respond to COVID-19 infection in the workplace including isolation requirements for employees infected with COVID-19 and close contact individuals. We believe policies and procedures help to ensure the health and safety of our employees.

Environmental matters

The semiconductor production process, including the semiconductor wafer manufacturing and packaging process, generates air emissions, liquid wastes, waste water and other industrial wastes. We have installed various types of pollution control equipment for the treatment of air emissions and liquid waste and equipment for recycling and treatment of water in our packaging and testing facilities in China and wafer manufacturing facility in Oregon, USA. Waste generated at our manufacturing facilities, including but not limited to acid waste, alkaline waste, flammable waste, toxic waste, oxide waste and self-igniting waste, is collected and sorted for proper disposal. Our operations in China are subject to regulation and periodic monitoring by China's State Environmental Protection Bureau, as well as local environmental protection authorities, including those under the Shanghai Municipal Government, which may in some cases establish stricter standards than those imposed by the State Environmental Protection Bureau. Our operation in Oregon is subject to Oregon Department of Environmental Regulations, Federal Environmental Protection Agency laws and regulations, and local jurisdictional regulations. We believe that we have been in material compliance with applicable environmental regulations and standards and have not had a material or adverse effect on our results of operations from complying with these regulations.

We have implemented an ISO 14001 environmental management system in our manufacturing facilities in China and Oregon. We also require our subcontractors, including foundries and assembly houses, to meet ISO 14001 standards. We believe that we have adopted pollution control measures for the effective maintenance of environmental protection standards consistent with the requirements applicable to the semiconductor industry in China and the U.S.

Our products sold in worldwide are subject to RoHS in Electrical and Electronic Equipment, which requires that the products do not contain more than agreed levels of lead, cadmium, mercury, hexavalent chromium, polybrominated biphenyl and polybrominated diphenyl ether flame retardants. Our manufacturing facilities in China also obtained QC080000 certification, which is an IECQ Certificate of Conformity Hazardous Substance Process Management for European Directive 2002/95/EC requirements and a Certificate of Green Partner for Sony Green Partner Program. We avoid using these restricted materials to the extent possible when we design our products.

We are also subject to SEC rules that require diligence, disclosure and reporting on whether certain minerals and metals, known as conflict minerals, used in our products originate from the Democratic Republic of Congo and adjoining countries. As of June 30, 2023, 2022 and 2021, we were in compliance with the related conflict minerals rule.

Export Control

We are subject to export and import control laws, trade regulations and other trade requirements that limit which products we sell and where and to whom we sell our products. Because we are committed to complying with all applicable export control laws, regulations, and requirements, we have reviewed and revised our processes and procedures to ensure that our shipments to our customers remain compliant with applicable export laws. As part of the enhanced process, we have also conducted extensive risk assessment on export control compliance and implemented training programs for our employees.

Executive Officers

The following table lists the names, ages and positions of our executive officers as of August 15, 2023. There are no family relationships between any executive officer, except that Mr. Stephen C. Chang is a son of Dr. Mike F. Chang.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Stephen C. Chang	46	Chief Executive Officer and Director
Mike F. Chang, Ph.D.	78	Executive Chairman and Chairman of the Board
Yifan Liang	59	Chief Financial Officer and Corporate Secretary
Wenjun Li, Ph.D.	54	Chief Operating Officer
Bing Xue, Ph.D.	59	Executive Vice President of Worldwide Sales and Business Development

Stephen C. Chang has served as our Chief Executive Officer since March 2023 and as a director since November 2022. Mr. Chang previously served as the Company's President from January 2021 to February 2023. Prior to that, Mr. Chang served in various management positions, including Executive Vice President of Product Line Management, Senior VP of Marketing, VP of the MOSFET Product Line, and Senior Director of Product Marketing. Mr. Chang has over 20 years of industry experience and leads the Company's business strategies, product and technology development, sales and marketing functions, manufacturing operation and supply chain management, and other managerial responsibilities. Mr. Chang received his B.A. in Electrical Engineering from University of California, Berkeley, and M.B.A. from Santa Clara University.

Mike F. Chang, Ph.D., is the founder of our company and serves as our Executive Chairman. Dr. Chang served as Chief Executive Officer from the founding of our company until March 2023. Prior to establishing our company, Dr. Chang served as the Executive Vice President at Siliconix Incorporated, a subsidiary of Vishay Intertechnology Inc., a global manufacturer and supplier of discrete and other power semiconductors, or Siliconix, from 1998 to 2000. Dr. Chang also held various management positions at Siliconix from 1987 to 1998. Earlier in his career, Dr. Chang focused on product research and development in various management positions at General Electric Company from 1974 to 1987. Dr. Chang received his B.S. in electrical engineering from National Cheng Kung University, Taiwan, and M.S. and Ph.D. in electrical engineering from the University of Missouri.

Yifan Liang has been serving as our Chief Financial Officer since August 2014 and Corporate Secretary since November 2013. Mr. Liang served as our Interim Chief Financial Officer from November 2013 to August 2014, our Chief Accounting Officer since October 2006, and our Assistant Corporate Secretary from November 2009 to November 2013. Mr. Liang joined our company in August 2004 as our Corporate Controller. Prior to joining us, Mr. Liang held various positions at PricewaterhouseCoopers LLP, or PwC, from 1995 to 2004, including Audit Manager in PwC's San Jose office. Mr. Liang received his B.S. in management information system from the People's University of China and M.A. in finance and accounting from the University of Alabama.

Wenjun. Li, Ph.D., has been serving as our Chief Operating Officer since August 2021. Prior to that, Dr. Li served in various management positions in our Company since 2012, including Executive Vice President of World-Wide Manufacturing, Senior Vice President of World-Wide Manufacturing, Vice President of Front-End Operation, the director of Process Integration and Senior Manager of Process Integration. Dr. Li holds a B.S. in Chemistry and a M.S. in Chemical Engineering from Taiyuan University of Technology, and a Ph.D. in Microelectronics & Solid-State Electronics from the Research Institute of Micro-Nanometer Technology at Shanghai Jiao Tong University.

Bing Xue, Ph.D., has been serving as our Executive Vice President of Worldwide Sales and Business Development since January 2021. Prior to that, Dr. Xue held various managerial positions in our company since 2003, including Senior Vice President of Global Sales, Vice President of Global Sales, Vice President of Worldwide Manufacturing, and General Manager of China Operation. Prior to joining us, Dr. Xue served as the Director of Engineering in Dowlake Microsystem from 2001 to 2003. Dr. Xue received his B.S. in Physics from Xiamen University, and Ph.D. in Physical Chemistry from University of Pennsylvania.

Available Information

Our filing documents and information with the Securities and Exchange Commission (the "SEC") are available free of charge electronically through our Internet website, www.aosmd.com, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. In addition, the SEC maintains a website (www.sec.gov) that contains reports, proxy statements, and other information that we file electronically.

Item 1A. Risk Factors

Our operations and financial results are subject to various risks and uncertainties, including those described below, that could adversely affect our business, financial condition, results of operations, cash flows, and the trading price of our common stock.

Risk Factor Summary

Risks Related to Our Business

- We may be adversely affected by the macroeconomic conditions and cyclical nature of the semiconductor industry.
- The decline of personal computing (“PC”) markets may have a material adverse effect on our results of operations.
- Our strategy of diversification into different market segments may not succeed according to our expectations.
- Our operating results may fluctuate from period to period due to many factors, which may make it difficult to predict our future performance.
- Geopolitical and economic conflicts between United States and China may adversely affect our business.
- Our lack of control over the JV Company may adversely affect our operations.
- Our revenue may fluctuate significantly from period to period due to ordering patterns from our distributors and seasonality.
- We may not be able to introduce or develop new and enhanced products that meet or are compatible with our customer’s product requirements in a timely manner.
- We may not win sufficient designs, or our design wins may not generate sufficient revenue for us to maintain or expand our business.
- Our success depends upon the ability of our OEM end customers to successfully sell products incorporating our products.
- The operation of our Oregon Fab subjects us to additional risks and the need for additional capital expenditures which may negatively impact our results of operations.
- Defects and poor performance in our products could result in loss of customers, decreased revenue, unexpected expenses and loss of market share.
- If we do not forecast demand for our products accurately, we may experience product shortages, delays in product shipment, excess product inventory, or difficulties in planning expenses, which will adversely affect our business and financial condition.
- We face intense competition and may not be able to compete effectively which could reduce our revenue and market share.
- Our reliance on third-party semiconductor foundries to manufacture our products subjects us to risks.
- Our reliance on distributors to sell a substantial portion of our products subjects us to a number of risks.
- We have made and may continue to make strategic acquisitions of other companies, assets or businesses and these acquisitions introduce significant risks and uncertainties.
- If we are unable to obtain raw materials in a timely manner or if the price of raw materials increases significantly, production time and product costs could increase, which may adversely affect our business.
- We may not be able to accurately estimate provisions at fiscal period end for price adjustment and stock rotation rights under our agreements with distributors, and our failure to do so may impact our operating results.
- Our operation of two wholly-owned packaging and testing facilities are subject to risks that could adversely affect our business and financial results.
- We may be adversely affected by any disruption in our information technology systems.
- We depend on the continuing services of our senior management team and other key personnel.
- Failure to protect our patents and our other proprietary information could harm our business and competitive position.

- Intellectual property disputes could result in lengthy and costly arbitration, litigation or licensing expenses or prevent us from selling our products.
- The DOJ government investigation and evolving export control regulations may adversely affect our financial performance and business operations.
- Global or regional economic, political and social conditions could adversely affect our business and operating results.
- Our business operations could be significantly harmed by natural disasters or global epidemics.
- Our insurance may not cover all losses, including losses resulting from business disruption or product liability claims.
- Our international operations subject our company to risks not faced by companies without international operations.
- If we fail to maintain an effective internal control environment as well as adequate control procedures over our financial reporting, investor confidence may be adversely affected thereby affecting the value of our stock price.
- We are subject to the risk of increased income taxes and changes in existing tax rules.
- Our debt agreements include financial covenants that may limit our ability to pursue business and financial opportunities and subject us to risk of default.
- The imposition of U.S. corporate income tax on our Bermuda parent and non-U.S. subsidiaries could adversely affect our results of operations.
- We may be classified as a passive foreign investment company (“PFIC”), which could result in adverse U.S. federal income tax consequences for U.S. holders.
- The average selling prices of products in our markets have historically decreased rapidly and will likely do so in the future, which could harm our revenue and gross margins.

Risks Related to Doing Business in China

- China’s economic, political and social conditions, as well as government policies, could affect our business and growth.
- Changes in China’s laws, legal protections or government policies on foreign investment in China may harm our business.
- The continuing potential for new or additional tariffs on imported goods from China could adversely affect our business operations.
- Uncertainties exist with respect to the interpretation and implementation of PRC Foreign Investment Law and how it may impact us.
- Limitations on our ability to transfer funds to our China subsidiaries could adversely affect our ability to expand our operations, make investments that could benefit our businesses and otherwise fund and conduct our business.
- China’s currency exchange control and government restrictions on investment repatriation may impact our ability to transfer funds outside of China.
- The M&A Rules and certain other PRC regulations establish complex procedures for some acquisitions of Chinese companies by foreign investors, which could make it more difficult for us to pursue growth through acquisitions in China.
- Our results of operations may be negatively impacted by fluctuations in foreign currency exchange rates between U.S. dollar and Chinese Yuan, or RMB.
- PRC labor laws may adversely affect our results of operations.
- Relations between Taiwan and China could negatively affect our business, financial condition and operating results and, therefore, the market value of our common shares.

Risks Related to Our Corporate Structure and Our Common Shares

- Our share price may be volatile and you may be unable to sell your shares at or above the purchase price, if at all.

- If securities or industry analysts do not publish research or reports about our business, or if they adversely change their recommendations regarding our common shares or if our operating results do not meet their expectations, the trading price of our common shares could decline.
- Anti-takeover provisions in our by-laws could make an acquisition of us more difficult and may prevent attempts by our shareholders to replace or remove our current management.
- We are a Bermuda company and the rights of shareholders under Bermuda law may be different from U.S. laws.

Risks Related to Our Business

Our operating results and financial conditions are affected by downturns in the semiconductor industry, changes in end-market demand and other macro-economic trends.

The semiconductor industry periodically experiences significant economic downturns characterized by diminished product and end-market demand, production overcapacity, excess inventory, which can result in rapid significant decline in shipment and sales, which may harm our operating results and financial condition. The semiconductor market is also highly cyclical and is characterized by constant and rapid technological change such as product obsolescence and price erosion, evolving standards, uncertain product life cycles and wide fluctuations in product supply and demand. Since mid-2022, we have experienced an industry-wide decline of customer demand for semiconductor products due primarily to the build-up of excess inventory prior to the cessation of the COVID-19 pandemic. This decline has negatively affected our recent financial performance in 2023. While we expect some recovery of the macroeconomic trend by the end of 2023 and early 2024, there is no guarantee that it will occur and a prolonged and extended downturn in the semiconductor industry will have a substantial impact on our operating results and financial conditions.

The decline of personal computing (“PC”) markets may have a material adverse effect on our results of operations.

A significant amount of our revenue is derived from sales of products in the PC markets such as notebooks, motherboards and notebook battery packs. Our revenue from the PC markets accounted for approximately 35.2%, 44.5% and 42.5% of our total revenue for the years ended June 30, 2023, 2022 and 2021, respectively. The increasing popularity of smaller, mobile computing devices such as tablets and smart phones with touch interfaces is rapidly changing the PC markets both in the United States and abroad. In the past prior to the commencement of the COVID-19 pandemic, we experienced a significant reduction in the demand for our products due to the declining PC markets, which negatively impacted our revenue, profitability and gross margin. While we experienced a surge of demand in the PC market as a result of the COVID-19 pandemic and related events, such demand began to return to normal level with the cessation of the COVID-19 pandemic, and recently declined due to an industry-wide inventory correction and the ensuing downturn in the semiconductor industry. We have implemented measures and strategies to mitigate the effect of such a downturn. These measures and strategies may not be sufficient or successful, in which case our operating results may be adversely affected.

Our strategy of diversification into different market segments may not succeed according to our expectations and may expose us to new risks and place significant strains on our management, operational, financial and other resources.

As part of the growth strategy to diversify our product portfolio and in response to the decline of the PC markets, we have been developing new technologies and products designed to penetrate into other markets and applications, including merchant power supplies, flat panel TVs, smart phones, tablets, gaming consoles, lighting, datacom, telecommunications, home appliances and industrial motor controls. However, there is no guarantee that these diversification efforts will be successful. As a new entrant to some of these markets, we may face intense competition from existing and more established providers and encounter other unexpected difficulties, any of which may hinder or delay our efforts to achieve success. In addition, our new products may have long design and sales cycles. Therefore, if our diversification efforts fail to keep pace with the declining PC markets, we may not be able to alleviate its negative impact on our results of operations.

Our diversification into different market segments may place a significant strain on our management, operational, financial and other resources. To manage this diversification effectively, we will need to take various actions, including:

- enhancing management information systems, including forecasting procedures;
- further developing our operating, administrative, financial and accounting systems and controls;
- managing our working capital and sources of financing;

- maintaining close coordination among our engineering, accounting, finance, marketing, sales and operations organizations;
- retaining, training and managing our employee base;
- enhancing human resource operations and improving employee hiring and training programs;
- realigning our business structure to more effectively allocate and utilize our internal resources;
- improving and sustaining our supply chain capability; and
- managing both our direct and distribution sales channels in a cost-efficient and competitive manner.

Our failure to execute any of the above actions successfully or timely may have an adverse effect on our business and financial results.

Our operating results may fluctuate from period to period due to many factors, which may make it difficult to predict our future performance.

Our periodic operating results may fluctuate as a result of a number of factors, many of which are beyond our control. These factors include, among others:

- a deterioration in general demand for electronic products, particularly the PC market, as a result of global or regional financial crises and associated macro-economic slowdowns, and/or the cyclical nature of the semiconductor industry;
- a deterioration in business conditions at our distributors and /or end customers;
- adverse general economic conditions in the countries where our products are sold or used;
- the emergence and growth of markets for products we are currently developing;
- our ability to successfully develop, introduce and sell new or enhanced products in a timely manner and the rate at which our new products replace declining orders for our older products;
- the anticipation, announcement or introduction of new or enhanced products by us or our competitors;
- changes in the selling prices of our products and in the relative mix in the unit shipments of our products, which have different average selling prices and profit margins;
- the amount and timing of operating costs and capital expenditures, including expenses related to the maintenance and expansion of our business operations and infrastructure;
- the announcement of significant acquisitions, disposition or partnership arrangements;
- the ramp-up progress and operation of the JV Company, and announcement of significant transactions involving the JV Company;
- changes in the utilization of our in-house manufacturing capacity;
- supply and demand dynamics and the resulting price pressure on the products we sell;
- the unpredictable volume and timing of orders, deferrals, cancellations and reductions for our products, which may depend on factors such as our end customers' sales outlook, purchasing patterns and inventory adjustments based on general economic conditions or other factors;
- changes in laws and regulations affecting our business operations;
- changes in costs associated with manufacturing of our products, including pricing of wafer, raw materials and assembly services;
- announcement of significant share repurchase programs;
- our concentration of sales in consumer applications and changes in consumer purchasing patterns and confidence; and
- the adoption of new industry standards or changes in our regulatory environment.

Any one or a combination of the above factors and other risk factors described in this section may cause our operating results to fluctuate from period to period, making it difficult to predict our future performance. Therefore, comparing our operating results on a period-to-period basis may not be meaningful, and you should not rely on our past results as an indication of our future performance.

Geopolitical and economic conflicts between United States and China may adversely affect our business

Geopolitical conflicts and tensions between the United States and China have threatened and destabilized trading relationships and economic activities between the two countries. Because we have significant operations in both countries, such conflicts and tensions may negatively impact our business. At various times during recent years, the United States and China have had disagreements over political and economic issues, including but not limited to, the recent imposition of tariffs by the U.S. on goods imported from China and to the U.S. government's efforts to restrict transfer and sharing of technologies, including semiconductor technologies, between the two countries. In addition, the U.S. government may enact new and more restrictive export control regulations that may reduce our ability to ship and sell products to certain customers in China and Asia and increase our cost to implement additional measures to comply with such new regulations. In addition, disagreements between the United States and China with respect to their political, military or economic policies toward Taiwan may contribute to further controversies. These controversies and trade frictions could have a material adverse effect on our business by, among other things, making it more difficult for us to coordinate our operations between the United States and China causing a reduction in the demand for our products by customers in the United States or China and reducing our profitability due to increasing cost of compliance.

Our lack of control over the JV Company may adversely affect our operations.

We formed the JV Company in 2016 which consists of a power semiconductor packaging, testing and 12-inch wafer fabrication facility in Chongqing. The JV Company is our subcontractor, and we rely and expect to continue to rely substantially on the JV Company to provide us with foundry capacity to develop and manufacture our products and to enhance our market position in China. At the formation of the JV Company, we retained control over the business operation of the JV Company through our majority equity ownership and board representation. In December 2021, we relinquished control over the JV Company through a series of transactions, including the sale of a portion of our equity interests in the JV Company and issuance of additional equity interests by the JV Company to raise capital. As a result of these transactions, we currently own approximately 42.2% of outstanding equity interest in the JV Company and have the right to designate three (3) out of seven (7) directors, instead of four (4) directors prior to such transaction. The reduction of our equity ownership of the JV Company is part of a plan to enable the JV Company to raise capital more easily and to facilitate a future public listing on the Science and Technology Innovation Board, or STAR Market, of the Shanghai Stock Exchange (the "China IPO"). Such reduction also caused the deconsolidation of the JV Company's financial statements from our Consolidated Financial Statements.

Because we no longer have a controlling interest in the JV Company, the JV Company is operating and will continue to operate more independently, and our influence on all aspects of the JV Company's business operations will be diminished. Accordingly, we might not be able to prevent the JV Company from taking actions adverse to our interests. For example, while we remain a major customer of the JV Company, the JV Company may decide to enter into business relationships with other customers and allocate foundry capacities to such customers, which may prevent us from securing a desirable or sufficient level of manufacturing capacity for our products. Even if the JV Company agrees to continue allocating sufficient manufacturing capacity to us, we may not be able to negotiate or obtain favorable pricing or service terms, which may increase our expenses and adversely affect our results of operations.

Our lack of control over the JV Company may also make it more difficult for us to execute our broader business strategies in China, including our R&D, sales and marketing, product innovation efforts and protection of intellectual property rights, because the JV Company may decide not to cooperate with us in these matters. In addition, while we expect to achieve a financial return for our investment in the JV Company as a result of the China IPO, the China IPO process is complex, time-consuming and subject to a number of risks and there is no guarantee that the China IPO will be completed in a timely manner, or at all, and the JV Company's failure to close the China IPO will negatively affect our investment in the JV Company.

In order to fund its capital expenditures and cost of operation, the JV Company has incurred a significant amount of indebtedness from third-party lenders under several loan and lease financing agreements, some of which are secured by substantially all of the assets of the JV Company. If the JV Company is not able to generate sufficient cash flow to make payments under these loans, the JV Company may be in default, which will adversely affect its ability to continue operations and provide foundry services to us. In addition, the JV Company requires additional funding to continue its operations and to refinance its existing indebtedness. There is no guarantee that the JV Company will be able to obtain financing on favorable terms, or at all, and any such failure may negatively impact our ability to access its wafer manufacturing capacity.

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

Our revenue may fluctuate significantly from period to period due to ordering patterns from our distributors and seasonality.

Demand for our products from our end customers fluctuates depending on their sales outlooks and market and economic conditions. Accordingly, our distributors place purchase orders with us based on their forecasts of end customer demand. Because these forecasts may not be accurate, channel inventory held at our distributors may fluctuate significantly due to the difference between the forecasts and actual demand. As a result, distributors adjust their purchase orders placed with us in response to changing channel inventory levels, as well as their assessment of the latest market demand trends. A significant decrease in our distributors' channel inventory in one period may lead to a significant rebuilding of channel inventory in subsequent periods, or vice versa, which may cause our quarterly revenue and operating results to fluctuate significantly.

In addition, because our power semiconductors are used in consumer electronics products, our revenue is subject to seasonality. Our sales seasonality is affected by a number of 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 year, broad fluctuations in the semiconductor markets and the global economic conditions, in particular the decline of the PC market conditions, have had a more significant impact on our results of operations, than seasonality, and have made it difficult to assess the impact of seasonal factors on our business. Our normal seasonality cycle has also been impacted by the recent COVID-19 pandemic and related events, making it more difficult to predict and determine a more consistent seasonality trend.

If we are unable to introduce or develop new and enhanced products that meet or are compatible with our customer's product requirements in a timely manner, it may harm our business, financial position and operating results.

Our success depends upon our ability to develop and introduce new and enhanced products that meet or are compatible with our customer's specifications, performance standards and other product requirements in a timely manner. The development of new and enhanced products involves highly complex processes, and at times we have experienced delays in the introduction of new products. Successful product development and introduction of new products depends on a number of factors, including the accurate product specification; timely completion of design; achievement of manufacturing yields; timely response to changes in customer's product requirements; quality and cost-effective production; and effective marketing. Since many of our products are designed for specific applications, we must frequently develop new and enhanced products jointly with our customers. In the past, we have encountered product compatibility issues with a major OEM that has negatively impacted our financial results, and although we have resolved fully such issues with the OEM, there is no guarantee that the same compatibility issues will not occur in the future with other OEMs. If we are unable to develop or acquire new products that meet or are compatible with our customer's specification and other product requirements in a timely manner, we may lose revenue or market share with our customers, which could have a material adverse effect on our business, financial position and operating results.

We may not win sufficient designs, or our design wins may not generate sufficient revenue for us to maintain or expand our business.

We invest significant resources to compete with other power semiconductor companies to win competitive bids for our products in selection processes, known as "design wins." Our effort to obtain design wins may detract from or delay the completion of other important development projects, impair our relationships with existing end customers and negatively impact sales of products under development. In addition, we cannot be assured that these efforts would result in a design win, that our product would be incorporated into an end customer's initial product design, or that any such design win would lead to production orders and generate sufficient revenue. Furthermore, even after we have qualified our products with a customer and made sales, subsequent changes to our products, manufacturing processes or suppliers may require a new qualification process, which may result in delay and excess inventory. If we cannot achieve sufficient design wins in the future, or if we fail to generate production orders following design wins, our ability to grow our business and improve our financial results will be harmed.

Our success depends upon the ability of our OEM end customers to successfully sell products incorporating our products.

The consumer end markets, in particular the PC market, in which our products are used are highly competitive. Our OEM end customers may not successfully sell their products for a variety of reasons, including:

- general global and regional economic conditions;
- late introduction or lack of market acceptance of their products;
- lack of competitive pricing;
- shortage of component supplies;
- excess inventory in the sales channels into which our end customers sell their products;
- changes in the supply chain; and
- changes as a result of regulatory restrictions applicable to China-exported products.

Our success depends on the ability of our OEM end customers to sell their products incorporating our products. In addition, we have expanded our business model to include more OEMs in our direct customer base. The failure of our OEM end customers to achieve or maintain commercial success for any reason could harm our business, results of operations, and financial condition and prospects.

The operation of our Oregon Fab subjects us to additional risks and the need for additional capital expenditures which may negatively impact our results of operations.

The operation of the Oregon Fab requires significant fixed manufacturing cost. In order to manage the capacity of the wafer fabrication facility efficiently, we must perform a forecast of long-term market demand and general economic conditions for our products. Because market conditions may vary significantly and unexpectedly, our forecast may change significantly at any time, and we may not be able to make timely adjustments to our fabrication capacity in response to these changes. During periods of continued decline in market demand, in particular the decline of the PC market, we may not be able to absorb the excess inventory and additional costs associated with operating the facility at higher capacity, which may adversely affect our operating results. Similarly, during periods of unexpected increase in customer demand, we may not be able to ramp up production quickly to meet these demands, which may lead to the loss of significant revenue opportunities. The manufacturing processes of a fabrication facility are complex and subject to interruptions. We may experience production difficulties, including lower manufacturing yields or products that do not meet our or our customers' specifications, and problems in ramping production and installing new equipment. These difficulties could result in delivery delays, quality problems and lost revenue opportunities. Any significant quality problems could also damage our reputation with our customers and distract us from the development of new and enhanced product which may have a significant negative impact on our financial results.

Defects and poor performance in our products could result in loss of customers, decreased revenue, unexpected expenses and loss of market share, and we may face warranty and product liability claims arising from defective products.

Our products are complex and must meet stringent quality requirements. Products as complex as ours may contain undetected errors or defects, especially when first introduced or when new versions are released. Errors, defects or poor performance can arise due to design flaws, defects in raw materials or components or manufacturing anomalies, which can affect both the quality and the yield of the product. It can also be potentially dangerous as defective power components, or improper use of our products by customers, may lead to power overloads, which could result in explosion or fire. Any actual or perceived errors, defects or poor performance in our products could result in the replacement or recall of our products, shipment delays, rejection of our products, damage to our reputation, lost revenue, diversion of our engineering personnel from our product development efforts in order to address or remedy any defects and increases in customer service and support costs, all of which could have a material adverse effect on our business and operations.

Furthermore, as our products are typically sold at prices much lower than the cost of the equipment or other devices incorporating our products, any defective, inefficient or poorly performing products, or improper use by customers of power components, may give rise to warranty and product liability claims against us that exceed any revenue or profit we receive from the affected products. We could incur significant costs and liabilities if we are sued and if damages are awarded against us. There is no guarantee that our insurance policies will be available or adequate to protect against such claims. Costs or payments we may make in connection with warranty and product liability claims or product recalls may adversely affect our financial condition and results of operations.

The average selling prices of products in our markets have historically decreased rapidly and will likely do so in the future, which could harm our revenue and gross margins.

As is typical in the semiconductor industry, the average selling price of a particular product has historically declined significantly over the life of the product. In the past, we have reduced the average selling prices of our products in anticipation of future competitive pricing pressures, new product introductions by us or our competitors and other factors. We expect that we will have to similarly reduce prices in the future for older generations of products. Reductions in our average selling prices to one customer could also impact our average selling prices to all customers. A decline in average selling prices would harm our gross margins for a particular product. If not offset by sales of other products with higher gross margins, our overall gross margins may be adversely affected. Our business, results of operations, financial condition and prospects will suffer if we are unable to offset any reductions in our average selling prices by increasing our sales volumes, reducing our costs and developing new or enhanced products on a timely basis, with higher selling prices or gross margins.

If we do not forecast demand for our products accurately, we may experience product shortages, delays in product shipment, excess product inventory, or difficulties in planning expenses, which will adversely affect our business and financial condition.

We manufacture our products according to our estimates of customer demand. This process requires us to make numerous forecasts and assumptions relating to the demand of our end customers, channel inventory, and general market conditions. Because we sell most of our products to distributors, who in turn sell to our end customers, we have limited visibility as to end customer demand. Furthermore, we do not have long-term purchase commitments from our distributors or end customers, and our sales are generally made by purchase orders that may be cancelled, changed or deferred without notice to us or penalty. As a result, it is difficult to forecast future customer demand to plan our operations.

The utilization of our manufacturing facilities and the provisions for inventory write-downs are important factors in our profitability. If we overestimate demand for our products, or if purchase orders are canceled or shipments delayed, we may have excess inventory, which may result in adjustments to our production plans. These adjustments to our productions may affect the utilization of our own wafer fabrication and packaging facilities. If we cannot sell certain portions of the excess inventory, it will affect our provisions for inventory write-downs. Our inventory write-down provisions are subject to adjustment based on events that may not be known at the time the provisions are made, and such adjustments could be material and impact our financial results negatively.

If we underestimate demand, we may not have sufficient inventory to meet end-customer demand, and we may lose market share and damage relationships with our distributors and end customers and we may have to forego potential revenue opportunities. Obtaining additional supply in the face of product shortages may be costly or impossible, particularly in the short term, which could prevent us from fulfilling orders in a timely manner or at all.

In addition, we plan our operating expenses, including research and development expenses, hiring needs and inventory investments, based in part on our estimates of customer demand and future revenue. If customer demand or revenue for a particular period is lower than we expect, we may not be able to proportionately reduce our fixed operating expenses for that period, which would harm our operating results.

We face intense competition and may not be able to compete effectively which could reduce our revenue and market share.

The power semiconductor industry is highly competitive and fragmented. If we do not compete successfully against current or potential competitors, our market share and revenue may decline. Our main competitors are primarily headquartered in the United States, Japan, Taiwan and Europe. Our major competitors for our power discretes include Infineon Technologies AG, Magnachip Semiconductor Corporation, ON Semiconductor Corp., STMicroelectronics N.V., Toshiba Corporation, Diodes Incorporated and Vishay Intertechnology, Inc. Our major competitors for our power ICs include Global Mixed-mode Technology Inc., Monolithic Power Systems, Inc., ON Semiconductor Corp., Richtek Technology Corp., Semtech Corporation, Texas Instruments Inc. and Vishay Intertechnology, Inc.

We expect to face competition in the future from our competitors, other manufacturers, designers of semiconductors and start-up semiconductor design companies. Many of our competitors have competitive advantages over us, including:

- significantly greater financial, technical, research and development, sales and marketing and other resources, enabling them to invest substantially more resources than us to respond to the adoption of new or emerging technologies or changes in customer requirements;
- greater brand recognition and longer operating histories;

- larger customer bases and longer, more established relationships with distributors or existing or potential end customers, which may provide them with greater reliability and information regarding future trends and requirements that may not be available to us;
- the ability to provide greater incentives to end customers through rebates, and marketing development funds or similar programs;
- more product lines, enabling them to bundle their products to offer a broader product portfolio or to integrate power management functionality into other products that we do not sell;
- greater ability and more resources to influence and participate in the regulatory and legislative process for more favorable laws and regulations; and
- captive manufacturing facilities, providing them with guaranteed access to manufacturing facilities in times of global semiconductor shortages.

In addition, the semiconductor industry has experienced increased consolidation over the past several years that may adversely affect our competitive position. Consolidation among our competitors could lead to a less favorable competitive landscape, capabilities and market share, which could harm our business and results of operations.

If we are unable to compete effectively for any of the foregoing or other reasons, our business, results of operations, and financial condition and prospects will be harmed.

Our reliance on third-party semiconductor foundries to manufacture our products subject us to risks.

The allocation of our wafer production between in-house facility and third-party foundries may fluctuate from time to time. We expect to continue to rely in part on third party foundries to meet our wafer requirements. Although we use several independent foundries, our primary third-party foundry is HHGrace, which manufactured 9.6%, 10.3% and 11.5% of the wafers used in our products for the fiscal years ended June 30, 2023, 2022 and 2021, respectively.

If any third-party foundry does not provide competitive pricing or is not able to meet our required capacity for any reason, we may not be able to obtain the required capacity to manufacture our products timely or efficiently. From time to time, third party suppliers may extend lead-times, limit supplies or increase prices due to capacity constraints or other factors, and we may experience a shortage of capacity on an industry-wide basis that may last for an extended period of time. There are no assurances that we will be able to maintain sufficient capacity to meet the full demand from our customers, and failure to do so will adversely affect our results of operations. If we cannot maintain sufficient capacity or control pricing with our existing third-party foundries, we may need to increase our own manufacturing capacity, and there is no assurance that we can ramp up the production of the Oregon Fab timely to meet the increased demand. If not, we may need to seek alternative foundries, which may not be available on commercially reasonable terms, or at all. In addition, the process for qualifying a new foundry is time consuming, difficult and may not be successful, particularly if we cannot integrate our proprietary process technology with the process used by the new foundry. Using a foundry with which we have no established relationship could expose us to potentially unfavorable pricing, unsatisfactory quality or insufficient capacity allocation.

We also rely on third-party foundries to effectively implement certain of our proprietary technology and processes and also require their cooperation in developing new fabrication processes. Any failure to do so may impair our ability to introduce new products and on time delivery of wafers for our existing products. In order to maintain our profit margins and to meet our customer demand, we need to achieve acceptable production yields and timely delivery of silicon wafers. As is common in the semiconductor industry, we have experienced, and may experience from time to time, difficulties in achieving acceptable production yields and timely delivery from third-party foundry vendors. Minute impurities in a silicon wafer can cause a substantial number of wafers to be rejected or cause numerous die on a wafer to be defective. Low yields often occur during the production of new products, the migration of processes to smaller geometries or the installation and start up of new process technologies.

We face a number of other significant risks associated with outsourcing fabrication, including:

- limited control over delivery schedules, quality assurance and control and production costs;
- discretion of foundries to reduce deliveries to us on short notice, allocate capacity to other customers that may be larger or have long-term customer or preferential arrangements with foundries that we use;
- unavailability of, or potential delays in obtaining access to, key process technologies;
- limited warranties on wafers or products supplied to us;

- damage to equipment and facilities, power outages, equipment or materials shortages that could limit manufacturing yields and capacity at the foundries;
- potential unauthorized disclosure or misappropriation of intellectual property, including use of our technology by the foundries to make products for our competitors;
- financial difficulties and insolvency of foundries; and
- acquisition of foundries by third parties.

Any of the foregoing risks could delay shipment of our products, result in higher expenses and reduced revenue, damage our relationships with customers and otherwise adversely affect our business and operating results.

Our reliance on distributors to sell a substantial portion of our products subjects us to a number of risks.

We sell a substantial portion of our products to distributors, who in turn sell to our end customers. Our distributors typically offer power semiconductor products from several different companies, including our direct competitors. The distributors assume collection risk and provide logistical services to end customers, including stocking our products. Two distributors, WPG and Promate, collectively accounted for 57.2%, 64.3% and 64.1% of our revenue for the fiscal years ended June 30, 2023, 2022 and 2021, respectively. We currently have effective agreements with Promate and WPO to serve as our distributors, and such agreement is renewed automatically for one-year period continuously unless terminated earlier pursuant to the terms of such agreements. We believe that our success will continue to depend upon these distributors. Our reliance on distributors subjects us to a number of risks, including:

- write-downs in inventories associated with stock rotation rights and increases in provisions for price adjustments granted to certain distributors;
- potential reduction or discontinuation of sales of our products by distributors;
- failure to devote resources necessary to sell our products at the prices, in the volumes and within the time frames that we expect;
- focusing their sales efforts on products of our competitors;
- dependence upon the continued viability and financial resources of these distributors, some of which are small organizations with limited working capital and all of which depend on general economic conditions and conditions within the semiconductor industry;
- dependence on the timeliness and accuracy of shipment forecasts and resale reports from our distributors;
- management of relationships with distributors, which can deteriorate as a result of conflicts with efforts to sell directly to our end customers; and
- our agreements with distributors which are generally terminable by either party on short notice.

If any significant distributor becomes unable or unwilling to promote and sell our products, or if we are not able to renew our contracts with the distributors on acceptable terms, we may not be able to find a replacement distributor on reasonable terms or at all and our business could be harmed.

We have made and may continue to make strategic acquisitions of other companies, assets or businesses or form joint ventures with partners to advance our business objectives. These acquisitions and joint ventures involve significant risks and uncertainties.

In order to position ourselves to take advantage of growth opportunities, we have made, and may continue to make, strategic acquisitions, mergers, partnership, joint ventures and alliances that involve significant risks and uncertainties. Successful acquisitions and alliances in the semiconductor industry are difficult to accomplish because they require, among other factors, efficient integration and aligning of product offerings and manufacturing operations and coordination of sales and marketing and research and development efforts. We may also seek to establish partnerships, joint ventures and acquisition of assets in various foreign jurisdictions where we may not have significant operating experience. In addition, we may encounter unanticipated challenges and difficulties, including regulatory and compliance issues, lack of local support and geopolitical tensions. The difficulties of integration and alignment may be increased by the necessity of coordinating geographically separated organizations, the complexity of the technologies being integrated and aligned and the necessity of integrating personnel with dissimilar business backgrounds. Furthermore, there is no guarantee that we will be able to identify viable targets for strategic acquisition. Also we may incur significant costs in efforts that may not result in a successful acquisitions.

In addition, we may also issue equity securities to pay for future acquisitions or alliances, which could be dilutive to existing shareholders. We may also incur debt or assume contingent liabilities in connection with acquisitions and alliances, which could impose restrictions on our business operations and harm our operating results.

If we are unable to obtain raw materials in a timely manner or if the price of raw materials increases significantly, production time and product costs could increase, which may adversely affect our business.

Our fabrication and packaging processes depend on raw materials such as silicon wafers, gold, copper, molding compound, petroleum and plastic materials and various chemicals and gases. From time to time, suppliers may extend lead times, limit supplies or increase prices due to capacity constraints or other factors. If the prices of these raw materials rise significantly, we may be unable to pass on the increased cost to our customers. Our results of operations could be adversely affected if we are unable to obtain adequate supplies of raw materials in a timely manner or at reasonable price. In addition, from time to time, we may need to reject raw materials because they do not meet our specifications or the sourcing of such materials do not comply with our conflict mineral policies, resulting in potential delays or declines in output. Furthermore, problems with our raw materials may give rise to compatibility or performance issues in our products, which could lead to an increase in customer returns or product warranty claims. Errors or defects may arise from raw materials supplied by third parties that are beyond our detection or control, which could lead to additional customer returns or product warranty claims that may adversely affect our business and results of operations.

We may not be able to accurately estimate provisions at fiscal period end for price adjustment and stock rotation rights under our agreements with distributors, and our failure to do so may impact our operating results.

We sell a majority of our products to distributors under arrangements allowing price adjustments and returns under stock rotation programs, subject to certain limitations. As a result, we are required to estimate allowances for price adjustments and stock rotation for our products as inventory at distributors at each reporting period end. Our ability to reliably estimate these allowances enables us to recognize revenue upon delivery of goods to distributors instead of upon resale of goods by distributors to end customers.

We estimate the allowance for price adjustment based on factors such as distributor inventory levels, pre-approved future distributor selling prices, distributor margins and demand for our products. Our estimated allowances for price adjustments, which we offset against accounts receivable from distributors, were \$40.0 million and \$18.7 million at June 30, 2023 and 2022, respectively.

Our accruals for stock rotation are estimated based on historical returns and individual distributor agreement, and stock rotation rights, which are recorded as accrued liabilities on our consolidated balance sheets, are contractually capped based on the terms of each individual distributor agreement. Our estimated liabilities for stock rotation at June 30, 2023 and 2022 were \$5.6 million and \$4.8 million, respectively.

Our estimates for these allowances and accruals may be inaccurate. If we subsequently determine that any allowance and accrual based on our estimates is insufficient, we may be required to increase the size of our allowances and accrual in future periods, which would adversely affect our results of operations and financial condition.

Our operation of two wholly-owned packaging and testing facilities are subject to risks that could adversely affect our business and financial results.

We have two wholly-owned packaging and testing facilities located in Shanghai, China that handle most of our packaging and testing requirements. The operation of high-volume packaging and testing facilities and implementation of our advanced packaging technology are complex and demand a high degree of precision and may require modification to improve yields and product performance. We have committed substantial resources to ensure that our packaging and testing facilities operate efficiently and successfully, including the acquisition of equipment and raw materials, and training and management of a large number of technical personnel and employees. Due to the fixed costs associated with operating our own packaging and testing facilities, if we are unable to utilize our in-house facilities at a desirable level of production, our gross margin and results of operations may be adversely affected. For example, a significant decline in our market share or sales orders may negatively impact our factory utilization and reduce our ability to achieve profitability.

In addition, the operation of our packaging and testing facilities is subject to a number of risks, including the following:

- unavailability of equipment, whether new or previously owned, at acceptable terms and prices;
- facility equipment failure, power outages or other disruptions;
- shortage of raw materials, including packaging substrates, copper, gold and molding compound;
- failure to maintain quality assurance and remedy defects and impurities;
- changes in the packaging requirements of customers;
- our limited experience in operating a high-volume packaging and testing facility; and
- operation stoppage due to the city-wide lockdown in response to public health emergencies or pandemics.

Any of the foregoing risks could adversely affect our capacity to package and test our products, which could delay shipment of our products, result in higher expenses, reduce revenue, damage our relationships with customers and otherwise adversely affect our business, results of operations, financial condition and prospects.

Our business operations and financial conditions may be adversely affected by any disruption in our information technology systems, including any cyberattacks and breaches.

Our operations are dependent upon our information technology systems, which encompass all of our major business functions across offices internationally. We rely upon such information technology systems to manage and replenish inventory, complete and track customer orders, coordinate sales activities across all of our products and services, maintain vital data and information, perform financial and accounting tasks and manage and perform various administrative and human resources functions. A substantial disruption in our information technology systems for any extended time period (arising from, for example, system capacity limits from unexpected increases in our volume of business, outages or delays in our service) could result in delays in receiving inventory and supplies or filling customer orders and adversely affect our customer service and relationships. Our systems might be damaged or interrupted by natural or man-made events or by computer viruses, physical or electronic break-ins, cyber-attacks and similar disruptions affecting the global Internet.

In addition, recent widespread ransomware attacks and cybersecurity breaches in the U.S. and elsewhere have affected many companies, including the cybersecurity incident involving SolarWinds Orion in December 2020. In the past, we also experienced ransomware attacks on our information technology system. In April, 2022, we became aware of a cybersecurity incident involving unauthorized access to one of the Company's email accounts, resulting in unauthorized payments. We recorded a loss of \$1.5 million due to the incident for the three months ended March 31, 2022. Immediately following the discovery, we commenced an investigation, contained the incident and implemented additional protective measures and internal control policies and procedures. We also alerted law enforcement authorities and banking institutions in an effort to recover the lost amount. This incident appears to be isolated and its financial impact identified was not material. The Company believes that it has not incurred other damages and losses based on the conclusion of the full investigation.

While these attacks did not have a material adverse effect on our business operation or results of operations, they caused temporary disruptions and interfered with our operations. Any cybersecurity breach and financial loss may also have a negative impact on our internal control over financial reporting. While we have implemented additional measures to enhance our security protocol to protect our system and intend to do so in response to any threats, there is no guarantee that future attacks would be thwarted or prevented. We also expect to incur additional costs and expenses to upgrade our information technology system and establish additional protective measures to prevent future breaches. Furthermore, despite our efforts to investigate, improve and remediate the capability and performance of our information technology system, we may not be able to discover all weaknesses, breaches and vulnerabilities, and failure to do so may expose us to higher risk of data loss and adversely affect our business operations and results of operations.

We depend on the continuing services of our senior management team and other key personnel, and if we lose a member of our senior management or are unable to successfully retain, recruit and train key personnel, our ability to develop and market our products could be harmed.

Our success depends upon the continuing services of members of our senior management team and various engineering and other technical personnel. In particular, our engineers and other sales and technical personnel are critical to our future technological and product innovations. Our industry is characterized by high demand and intense competition for talent and the pool of qualified candidates is limited. We have entered into employment agreements with certain senior executives, but we do not have employment agreements with most of our employees. Many of these employees could leave our company with little or no prior notice and would be free to work for a competitor. If one or more of our senior executives or other key personnel are unable or unwilling to continue in their present positions, we may not be able to replace them easily or at all and other senior management may be required to divert attention from other aspects of our business. In addition, we do not have "key person" life insurance policies covering any member of

our management team or other key personnel. The loss of any of these individuals or our inability to attract or retain qualified personnel, including engineers and others, could adversely affect our product introductions, overall business growth prospects, results of operations and financial condition.

Failure to protect our patents and our other proprietary information could harm our business and competitive position.

Our success depends, in part, on our ability to protect our intellectual property. We rely on a combination of patent, copyright (including mask work protection), trademark and trade secret laws, as well as nondisclosure agreements, license agreements and other methods to protect our intellectual property rights, which may not be sufficient to protect our intellectual property. As of June 30, 2023, we owned 918 issued U.S. patents expiring between 2023 and 2041 and had 45 pending patent applications with the United States Patent and Trademark Office. In addition, we own patents and have filed patent applications in several jurisdictions outside of the U.S, including China, Taiwan, Japan and Korea.

Our patents and patent applications may not provide meaningful protection from our competitors, and there is no guarantee that patents will be issued from our patent applications. The status of any patent or patent application involves complex legal and factual determinations and the breadth of a claim is uncertain. In addition, our efforts to protect our intellectual property may not succeed due to difficulties and risks associated with:

- policing any unauthorized use of or misappropriation of our intellectual property, which is often difficult and costly and could enable third parties to benefit from our technologies without paying us;
- others independently developing similar proprietary information and techniques, gaining authorized or unauthorized access to our intellectual property rights, disclosing such technology or designing around our patents;
- the possibility that any patent or registered trademark owned by us may not be enforceable or may be invalidated, circumvented or otherwise challenged in one or more countries may limit our competitive advantages;
- uncertainty as to whether patents will be issued from any of our pending or future patent applications with the scope of the claims sought by us, if at all; and
- intellectual property laws and confidentiality laws may not adequately protect our intellectual property rights, including, for example, in China where enforcement of China intellectual property-related laws have historically been less effective, primarily because of difficulties in enforcement and low damage awards.

We also rely on customary contractual protection with our customers, suppliers, distributors, employees and consultants, and we implement security measures to protect our trade secrets. We cannot assure you that these contractual protections and security measures will not be breached, that we will have adequate remedies for any such breach or that our suppliers, employees, distributors or consultants will not assert rights to intellectual property arising out of such contracts.

In addition, we have a number of third-party patent and intellectual property license agreements, one of which requires us to make ongoing royalty payments. In the future, we may need to obtain additional licenses, renew existing license agreements or otherwise replace existing technology. We are unable to predict whether these license agreements can be obtained or renewed or the technology can be replaced on acceptable terms, or at all.

Intellectual property disputes could result in lengthy and costly arbitration, litigation or licensing expenses or prevent us from selling our products.

As is typical in the semiconductor industry, we or our customers may receive claims of infringement from time to time or otherwise become aware of potentially relevant patents or other intellectual property rights held by other parties that may cover some of our technology, products and services or those of our end customers. The semiconductor industry is characterized by vigorous protection and pursuit of intellectual property rights which has resulted in protracted and expensive arbitration and litigation for many companies. Patent litigation has increased in recent years due to increased assertions made by intellectual property licensing entities or non-practicing entities and increasing competition and overlap of product functionality in our markets.

Any litigation or arbitration regarding patents or other intellectual property could be costly and time consuming and could divert our management and key personnel from our business operations. We have in the past and may from time

to time in the future become involved in litigation that requires our management to commit significant resources and time. In addition, as part of our strategy to diversify our serviceable markets, we launched several key product families and technologies to enable high efficiency power conversion solutions and we plan to develop and commercialize new products in other power semiconductor markets. Our entry into the commercial markets for high-voltage power semiconductors and other markets as a result of our diversification strategy may subject us to additional and increased risk of disputes or litigation relating to these products.

Because of the complexity of the technology involved and the uncertainty of litigation generally, any intellectual property arbitration or litigation involves significant risks. Any claim of intellectual property infringement against us may require us to:

- incur substantial legal and personnel expenses to defend the claims or to negotiate for a settlement of claims;
- pay substantial damages or settlement to the party claiming infringement;
- refrain from further development or sale of our products;
- attempt to develop non-infringing technology, which may be expensive and time consuming, if possible at all;
- enter into costly royalty or license agreements that might not be available on commercially reasonable terms or at all;
- cross-license our technology with a competitor to resolve an infringement claim, which could weaken our ability to compete with that competitor; and
- indemnify our distributors, end customers, licensees and others from the costs of and damages of infringement claims by our distributors, end customers, licensees and others, which could result in substantial expenses for us and damage our business relationships with them.

Any intellectual property claim or litigation against us harm our business, results of operations, financial condition and prospects.

The current government investigation and evolving export control regulations may adversely affect our financial performance and business operations.

The U.S. Department of Justice 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 Department of Commerce ("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. 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 complete its review.

The ongoing government investigations into our export control compliance also subject us to a number of financial and business risks. We expect to incur significant costs and expenses, including legal fees, in connection with our effort to respond to the government investigation, as well as additional legal fees for defending securities class actions resulting from public disclosure of the government investigation. Such additional costs will adversely affect our profitability. While the Company has purchased a D&O insurance policy which may reimburse a portion of such fees and expenses, there is no guarantee that such policy will be sufficient to reduce our costs or that reimbursement can be obtained on a timely basis or at all. Furthermore, the management has diverted its resources and time in response to the investigation, and might not be able to fully engage with the core operation and objectives of our business activities. Finally, while we are fully cooperating with the government in the investigation, we are not able to predict its timing and outcome. In the event that the government decides to bring enforcement action against us, it will result in a material adverse effect on our business operations, our financial conditions and our reputation.

We also expect that the U.S. export control regulations to evolve and change in response to the political and economic tension between the U.S. and China, including potential new export control regulations that may impose additional restrictions on our ability to continue to do business with certain customers in China and Asia. If such

changes occur, we may be required to reduce shipments to certain Asian customers, adjust our business practices and incur additional costs to implement new export control compliance procedures, policies and programs, each of which will adversely affect our financial conditions and results of operations.

Global or regional economic, political and social conditions could adversely affect our business and operating results.

External factors such as potential terrorist attacks, acts of war, financial crises, such as the global or regional economic recession, or geopolitical and social turmoil in those parts of the world that serve as markets for our products could have significant adverse effect on our business and operating results in ways that cannot presently be predicted. Any future economic downturn or recession in the global economy in general and, in particular, on the economies in China, Taiwan and other countries where we market and sell our products, will have an adverse effect on our results of operations.

Our business operations could be significantly harmed by natural disasters or global epidemics.

We have research and development facilities located in Taiwan and the Silicon Valley in Northern California. Historically, these regions have been vulnerable to natural disasters and other risks, such as earthquakes, fires and floods, which may disrupt the local economy and pose physical risks to our property. We also have sales offices located in Taiwan and Japan where similar natural disasters and other risks may disrupt the local economy and pose physical risks to our operations. We are not currently covered by insurance against business disruption caused by earthquakes. In addition, we currently do not have redundant, multiple site capacity in the event of a natural disaster or other catastrophic event. In the event of such an occurrence, our business would suffer.

Our business could be adversely affected by natural disasters such as epidemics, outbreaks or other health crisis. An outbreak of avian flu or H1N1 flu in the human population, or another similar health crisis could adversely affect the economies and financial markets of many countries, particularly in Asia. Moreover, any related disruptions to transportation or the free movement of persons could hamper our operations and force us to close our offices temporarily.

The occurrence of any of the foregoing or other natural or man-made disasters could cause damage or disruption to us, our employees, operations, distribution channels, markets and customers, which could result in significant delays in deliveries or substantial shortages of our products and adversely affect our business results of operations, financial condition or prospects.

Our insurance may not cover all losses, including losses resulting from business disruption or product liability claims.

We have limited product liability, business disruption or other business insurance coverage for our operations. In addition, we do not have any business insurance coverage for our operations to cover losses that may be caused by litigation or natural disasters. Any occurrence of uncovered loss could harm our business, results of operations, financial condition and prospects.

Our international operations subject our company to risks not faced by companies without international operations.

We have adopted a global business model under which we maintain significant operations and facilities through our subsidiaries located in the U.S., China, Taiwan and Hong Kong. Our main research and development center is located in Silicon Valley, and our manufacturing and supply chain is located in China. We also have sales offices and customers throughout Asia, the U.S. and elsewhere in the world. Our international operations may subject us to the following risks:

- economic and political instability, including trade tension between the U.S. and China;
- costs and delays associated with transportations and communications;
- coordination of operations through multiple jurisdictions and time zones;
- fluctuations in foreign currency exchange rates;
- trade restrictions, changes in laws and regulations relating to, amongst other things, import and export tariffs, taxation, environmental regulations, land use rights and property; and
- the laws of, including tax laws, and the policies of the U.S. toward, countries in which we operate.

If we fail to maintain an effective internal control environment as well as adequate control procedures over our financial reporting, investor confidence may be adversely affected thereby affecting the value of our stock price.

We are required to maintain proper internal control over our financial reporting and adequate controls related to our disclosures. As defined in Rule 13a-15(f) under the Exchange Act, internal control over financial reporting is a process designed by, or under the supervision of the Chief Executive Officer and Chief Financial Officer, 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. If we fail to maintain adequate controls, our business, the results of operations, financial condition and/or the value of our stock may be adversely impacted.

In connection with management's evaluation of the effectiveness of our internal control over financial reporting, management identified a material weakness in our internal control over financial reporting due to the fact that (i) we did not design and maintain effective information technology general controls in the areas of user access, and segregation of duties for one of the information technology systems that supports the Company's financial reporting over inventory (work in process and finished goods) in costing and (ii) we did not identify and test control to ensure reliability of costing of inventory (work in process and finished goods).

We are in the process of remediating the material weakness identified above, including the implementation of additional policies and procedures to address the issues in our information technology control systems. For a more detailed description of the material weakness and our remediation plan, please see Item 9A of this Form 10-K. If our remediation efforts are insufficient or if additional material weakness in internal control over financial reporting are discovered or occur in the future, our consolidated financial statements may contain material misstatements and it could be required to revise or restate its financial results, which could materially and adversely affect our business, results of operations and financial condition, restrict its ability to access the capital markets, require it to expend significant resources to correct the material weakness, subject it to fines, penalties or judgments, harm its reputation or otherwise cause a decline in investor confidence.

We are subject to the risk of increased income taxes and changes in existing tax rules.

We conduct our business in multiple jurisdictions, including Hong Kong, Macau, the U.S., China, Taiwan, South Korea, Japan and Germany. The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in various taxing jurisdictions. Any of these jurisdictions may assert that we have unpaid taxes. Our effective tax rate was 30.1%, 7.9% and 6.5% for the fiscal years ended June 30, 2023, 2022 and 2021, respectively.

Any tax rate changes in the tax jurisdictions in which we operate could result in adjustments to our deferred tax assets, if applicable, which would affect our effective tax rate and results of operations. We base our tax position upon the anticipated nature and conduct of our business and upon our understanding of the tax laws of the various countries in which we have assets or conduct activities. However, our tax position is subject to review and possible challenge by tax authorities and to possible changes in law, which may have a retroactive effect. In particular, various proposals over the years have been made to change certain U.S. tax laws relating to foreign entities with U.S. connections. In addition, the U.S. government has proposed various other changes to the U.S. international tax system, certain of which could adversely impact foreign-based multinational corporate groups, and increased enforcement of U.S. international tax laws.

In August 2022 the U.S. enacted the Chip and Science Act of 2022 (the Chips Act). The Chips Act provides incentives to semiconductor chip manufacturers in the United States, including providing a 25% manufacturing investment credits for investments in semiconductor manufacturing property placed in service after December 31, 2022, for which construction begins before January 1, 2027. Property investments qualify for the 25% credit if, among other requirements, the property is integral to the operation of an advanced manufacturing facility, defined as having a primary purpose of manufacturing semiconductors or semiconductor manufacturing equipment. Currently, we are evaluating the impact of the Chips Act to us.

It is possible that these or other changes in the U.S. tax laws, foreign tax laws, or proposed actions by international bodies such as the Organization of Economic Cooperation and Development (OECD) could significantly increase our U.S. or foreign income tax liability in the future, including as described further below in this risk factor.

In December 2017, the European Union ("EU") identified certain jurisdictions (including Bermuda and Cayman Islands) which it considered had a tax system that facilitated offshore structuring by attracting profits without commensurate economic activity. In order to avoid EU "blacklisting", both Bermuda and Cayman Islands introduced new legislation in December 2018, which came into force on January 1, 2019. These new laws require Bermuda and Cayman companies carrying on one or more "relevant activity" (including: banking, insurance, fund management,

financing, leasing, headquarters, shipping, distribution and service center, intellectual property or holding company) to maintain a substantial economic presence in Bermuda and Cayman Islands in order to comply with the economic substance requirements. Effective from December 31, 2019, we have structured our activities to comply with the new law. However, there is no experience yet as to how the Bermuda and Cayman Islands authorities will interpret and enforce these new rules. The legislation remains subject to further clarification and, accordingly, there is no guarantee that we will be deemed to be compliant. Furthermore, this legislation may require us to make additional changes to the activities we carry on in Bermuda or Cayman Islands, which could increase our costs either directly in those locations or indirectly as a result of increased costs related to moving our operations to other jurisdictions. As a result, we are not able to determine the impact on our operations and net income as of the current period.

In addition, our subsidiaries provide products and services to, and may from time to time undertake certain significant transactions with, us and other subsidiaries in different jurisdictions. We have adopted transfer pricing arrangements for transactions among our subsidiaries. Related party transactions are generally subject to close review by tax authorities, including requirements that transactions be priced at arm's length and be adequately documented. If any tax authorities were successful in challenging our transfer pricing policies or other tax judgments, our income tax expense may be adversely affected and we could also be subject to interest and penalty charges which may harm our business, financial condition and operating results.

Further, the U.S. Congress, the EU, the OECD, and other government agencies in jurisdictions where we and our affiliates do business have had an extended focus on issues related to the taxation of multinational corporations. One example is the OECD's initiative in the area of "base erosion and profit shifting," or "BEPS". Many countries have implemented or begun to implement legislation and other guidance to align their international tax rules with the OECD's BEPS recommendations. In addition, the OECD has been working on an extension of the BEPS project, being referred to as "BEPS 2.0", which focuses on two "pillars" of reform. Pillar 1 is focused on global profit allocation and changing where large multinational corporations pay taxes, and pillar 2 includes a global minimum tax rate. The OECD published detailed blueprints of its proposals for pillar 1 and pillar 2 on October 14, 2020. In June 2021, Finance Ministers from the Group of Seven (G7) nations reached an accord on the principles of pillar 2, backing the creation of a global minimum corporate tax rate of at least 15%. Following the G7 announcement, the OECD/G20 Inclusive Framework announced on July 1, 2021 broad agreement on the two pillars, and released a proposal, which has been endorsed by over 130 jurisdictions, for a global minimum tax rate of at least 15% for large multinational corporations on a jurisdiction-by-jurisdiction basis. The OECD/G20 Inclusive Framework will work towards an agreement and the release of an implementation plan, which will contemplate bringing pillar 2 into law in 2022 with an effective date in 2023. As a result of the focus on the taxation of multinational corporations, the tax laws in the countries in which we and our affiliates do business could change on a prospective or retroactive basis, and any such changes could adversely affect us.

Our debt agreements include financial covenants that may limit our ability to pursue business and financial opportunities and subject us to risk of default.

We have entered into various debt agreements with certain financial institutions, which generally require us to maintain certain financial covenants that have the effect of limiting our ability to take certain actions, including actions to incur debt, repurchase stock, make certain investments and capital expenditures. As we continue to grow our business and expand our operations, we expect to incur additional indebtedness, including loan agreement or equipment leases, in order to fund such capital expenditures. These restrictions may limit our ability to pursue business and financial opportunities that are available or beneficial to us in response to changing and competitive economic environment, which may have an adverse effect on our financial conditions. In addition, a breach of any of these financial covenants, if not waived by the lenders, could trigger an event of default under the debt agreements, which may result in the acceleration of our indebtedness or the loss of our collateral used to secure such indebtedness.

The imposition of U.S. corporate income tax on our Bermuda parent and non-U.S. subsidiaries could adversely affect our results of operations.

We believe that our Bermuda parent and non-U.S. subsidiaries each operate in a manner that they would not be subject to U.S. corporate income tax because they are not engaged in a trade or business in the United States. Nevertheless, there is a risk that the U.S. Internal Revenue Service may assert that our Bermuda parent and non-U.S. subsidiaries are engaged in a trade or business in the United States. If our Bermuda parent and non-U.S. subsidiaries were characterized as being so engaged, we would be subject to U.S. tax at the regular corporate rates on our income that is effectively connected with U.S. trade or business, plus an additional 30% "branch profits" tax on the dividend equivalent amount, which is generally effectively connected income with certain adjustments, deemed withdrawn from the United States. Any such tax could materially and adversely affect our results of operations.

We may be classified as a passive foreign investment company ("PFIC"), which could result in adverse U.S. federal income tax consequences for U.S. holders.

Based on the current and anticipated valuation of our assets and the composition of our income and assets, we do not expect to be considered a PFIC, for U.S. federal income tax purposes for the foreseeable future. However, we must make a separate determination for each taxable year as to whether we are a PFIC after the close of each taxable year and we cannot assure you that we will not be a PFIC for our June 30, 2023 taxable year or any future taxable year. Under current law, a non-U.S. corporation will be considered a PFIC for any taxable year if either (1) at least 75% of its gross income is passive income or (2) at least 50% of the value of its assets, generally based on an average of the quarterly values of the assets during a taxable year, is attributable to assets that produce or are held for the production of passive income. PFIC status depends on the composition of our assets and income and the value of our assets, including, among others, a pro rata portion of the income and assets of each subsidiary in which we own, directly or indirectly, at least 25% by value of the subsidiary's equity interests, from time to time. Because we currently hold and expect to continue to hold a substantial amount of cash or cash equivalents, and because the calculation of the value of our assets may be based in part on the value of our common shares, which may fluctuate considerably given that market prices of technology companies historically often have been volatile, we may be a PFIC for any taxable year. If we were treated as a PFIC for any taxable year during which a U.S. holder held common shares, certain adverse U.S. federal income tax consequences could apply for such U.S. holder.

Risks Related to Doing Business in China

China's economic, political and social conditions, as well as government policies, could affect our business and growth.

Our financial results have been, and are expected to continue to be, affected by the economy in China. If China's economy is slowing down, it may negatively affect our business operation and financial results. The China economy differs from the economies of most developed countries in many respects, including:

- higher level of government involvement;
- early stage of development of a market-oriented economy;
- rapid growth rate;
- higher level of control over foreign currency exchange; and
- less efficient allocation of resources.

The Chinese economy has been transitioning from a planned economy to a more market-oriented economy. Although in recent years the China government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of corporate governance in business enterprises, the China government continues to retain significant control over the business and productive assets in China. Any changes in China's government policy or China's political, economic and social conditions, or in relevant laws and regulations, may adversely affect our current or future business, results of operations or financial condition. These changes in government policy may be implemented through various means, including changes in laws and regulations, implementation of anti-inflationary measures, change of basic interest rate, changes in the tax rate or taxation system and the imposition of additional restrictions on currency conversion and imports. Furthermore, given China's largely export-driven economy, any changes in the economies of China's principal trading partners and other export-oriented nations may adversely affect our business, results of operations, financial condition and prospects.

Our ability to successfully expand our business operations in China depends on a number of factors, including macroeconomic and other market conditions, and credit availability from lending institutions. In response to the recent global and Chinese economic recession, the China government has promulgated several measures aimed at expanding credit and stimulating economic growth. We cannot assure you that the various macroeconomic measures, monetary policies and economic stimulus package adopted by the China government to guide economic growth will be effective in maintaining or sustaining the growth rate of the Chinese economy. If measures adopted by the China government fail to achieve further growth in the Chinese economy, it may adversely affect our growth, business strategies and operating results. In addition, changes in political and social conditions of China may adversely affect our ability to conduct our business in the region. For example, geopolitical disputes and increased tensions between China and its neighboring countries in which we conduct business could make it more difficult for us to coordinate and manage our international operations in such countries.

Changes in China's laws, legal protections or government policies on foreign investment in China may harm our business.

Our business and corporate transactions, including our operations through the JV Company, are subject to laws and regulations applicable to foreign investment in China as well as laws and regulations applicable to foreign-invested enterprises. These laws and regulations frequently change, and their interpretation and enforcement involve uncertainties that could limit the legal protections available to us. Regulations and rules on foreign investments in China impose restrictions on the means that a foreign investor like us may apply to facilitate corporate transactions we may undertake. In addition, the Chinese legal system is based in part on government policies and internal rules, some of which are not published on a timely basis or at all, that may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until sometime after the violation. If any of our past operations are deemed to be non-compliant with Chinese law, we may be subject to penalties and our business and operations may be adversely affected. For instance, under Special Administrative Measures (Negative List) for Foreign Investment Access, some industries are categorized as sectors which are restricted or prohibited for foreign investment. As the Negative List is updated every year, there can be no assurance that the China government will not change its policies in a manner that would render part or all of our business to fall within the restricted or prohibited categories. If we cannot obtain approval from relevant authorities to engage in businesses which become prohibited or restricted for foreign investors, we may be forced to sell or restructure a business which has become restricted or prohibited for foreign investment. Furthermore, the China government has broad discretion in dealing with violations of laws and regulations, including levying fines, revoking business and other licenses and requiring actions necessary for compliance. In particular, licenses and permits issued or granted to us by relevant governmental bodies may be revoked at a later time by higher regulatory bodies. If we are forced to adjust our corporate structure or business as a result of changes in government policy on foreign investment or changes in the interpretation and application of existing or new laws, our business, financial condition, results of operations and prospects may be harmed. Moreover, uncertainties in the Chinese legal system may impede our ability to enforce contracts with our business partners, customers and suppliers, or otherwise pursue claims in litigation to recover damages or loss of property, which could adversely affect our business and operations.

The continuing trade tensions between the U.S. and China may result in increased tariffs on imported goods from China that could adversely affect our business operations.

Since 2018, U.S. and China trade tensions led to higher and increasing tariffs imposed by both countries on the import of goods from the other country. The U.S. government used various authorities to implement tariffs on a variety of Chinese goods and materials, which, absent exemptions, include products and applications, including consumer electronics, that incorporate our power discrete and power IC products. In response, China has imposed tariffs on certain American products, and warned of additional actions if the U.S. imposes new or increased tariffs. The continuing trade tensions could have significant adverse effects on world trade and the world economy. While the two countries have negotiated and entered into agreements to gradually reduce certain tariffs, it's unclear whether those agreements will significantly reduce the tariffs affecting our business operations. The ultimate level of tariffs, the ultimate scope of them, and whether or how any proposed additional tariffs will impact our business is uncertain. We believe that the imposition of additional tariffs by the U.S. government on products incorporating our power semiconductor products could deter our customers from purchasing our products originating from China. If so, this would reduce demand for our power semiconductor products or result in pricing adjustments that would lower our gross margin, which could have a material adverse effect on our business and results of operations.

Uncertainties exist with respect to the interpretation and implementation of PRC Foreign Investment Law and how it may impact the viability of our current corporate structure, corporate governance and business operations.

On March 15, 2019, the National People's Congress of the PRC promulgated the Foreign Investment Law, which took effect on January 1, 2020, and replaced the existing laws regulating foreign investment in China, namely, the Sino-foreign Equity Joint Venture Enterprise Law, the Sino-foreign Cooperative Joint Venture Enterprise Law and the Wholly Foreign-invested Enterprise Law, together with their implementation rules and ancillary regulations. The Foreign Investment Law embodies a PRC regulatory trend to rationalize its foreign investment regulatory regime in line with prevailing international practice and the legislative efforts to unify the corporate legal requirements for both foreign and domestic investments. The Foreign Investment Law establishes the basic framework for the access, promotion, protection and administration of foreign investments in China in view of investment protection and fair competition. For example, treatment of foreign investors on a national level will be no less favorable than the treatment received by domestic investors unless such investments fall within a "negative list". On June 30, 2019, the National Development and Reform Commission (the "NDRC") and the Ministry of Commerce of the PRC (the "MOC") published the Special Administrative Measures for Market Access of Foreign Investment (Negative List), which identifies specific sectors where foreign investors will be subject to special administrative measures. The Negative List has been updated twice in June 2020 for year 2021 and December 2021 for year 2022. The current effective Negative List took effect on January 1, 2022.

Since the Foreign Investment Law was newly enacted, uncertainties still exist in relation to its interpretation and implementation. For example, the Foreign Investment Law provides that foreign invested enterprises established according to the existing laws regulating foreign investment may maintain their structure and corporate governance within a five-year transition period, which means that we may be required to adjust the structure and corporate governance of certain of our China subsidiaries in such transition period. Failure to take timely and appropriate measures to cope with any of these or similar regulatory compliance challenges could materially and adversely affect our current corporate structure, corporate governance and business operations.

In addition, under the newly enacted Foreign Investment Law, foreign investors or the foreign invested enterprise should report investment information on the principle of necessity. Any company found to be non-compliant with such investment information reporting obligation might be potentially subject to fines or administrative liabilities.

Limitations on our ability to transfer funds to our China subsidiaries could adversely affect our ability to expand our operations, make investments that could benefit our businesses and otherwise fund and conduct our business.

The transfer of funds from us to our China subsidiaries, either as a shareholder loan or as an increase in registered capital, is subject to registration with or approval by the China's governmental authorities, including the State Administration of Foreign Exchange, or SAFE's, or the relevant examination and approval authority. Our subsidiaries may also experience difficulties in converting our capital contributions made in foreign currencies into RMB due to changes in the China's foreign exchange control policies. Therefore, it may be difficult to change capital expenditure plans once the relevant funds have been remitted from us to our China subsidiaries. These limitations and the difficulties our China subsidiaries may experience on the free flow of funds between us and our China subsidiaries could restrict our ability to act in response to changing market situations in a timely manner.

China's currency exchange control and government restrictions on investment repatriation may impact our ability to transfer funds outside of China.

A significant portion of our business is conducted in China where the currency is the Renminbi. Regulations in China permit foreign owned entities to freely convert the Renminbi into foreign currency for transactions that fall under the "current account," which includes trade related receipts and payments, interest and dividends. Accordingly, our Chinese subsidiaries may use Renminbi to purchase foreign exchange for settlement of such "current account" transactions without pre-approval. However, pursuant to applicable regulations, foreign-invested enterprises in China may pay dividends only out of their accumulated profits, if any, determined in accordance with Chinese accounting standards and regulations. In calculating accumulated profits, foreign investment enterprises in China are required to allocate 10% of their accumulated profits each year, if any, to fund certain reserve funds unless these reserves have reached 50% of the registered capital of the enterprises.

Other transactions that involve conversion of Renminbi into foreign currency are classified as "capital account" transactions; examples of "capital account" transactions include repatriations of investment by or loans to foreign owners, or direct equity investments in a foreign entity by a China domiciled entity. "Capital account" transactions require prior approval from, or registration with China's State Administration of Foreign Exchange (SAFE) or its provincial branch or its authorized banks to convert a remittance into a foreign currency, such as U.S. dollars, and transmit the foreign currency outside of China.

As a result of these and other restrictions under PRC laws and regulations, our China subsidiaries are restricted in their ability to transfer a portion of their net assets to the parent. Such restricted portion amounted to approximately \$93.2 million, or 10.5% of our total consolidated net assets attributed to the Company as of June 30, 2023. We have no assurance that the relevant Chinese governmental authorities in the future will not limit further or eliminate the ability of our China subsidiaries to purchase foreign currencies and transfer such funds to us to meet our liquidity or other business needs. Any inability to access funds in China, if and when needed for use by the Company outside of China, could have a material and adverse effect on our liquidity and our business.

The M&A Rules and certain other PRC regulations establish complex procedures for some acquisitions of Chinese companies by foreign investors, which could make it more difficult for us to pursue growth through acquisitions in China.

The Regulations on Mergers and Acquisitions of Domestic Companies by Foreign Investors, or the M&A Rules, adopted by six PRC regulatory agencies in August 2006 and amended in 2009, and some other regulations and rules concerning mergers and acquisitions established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time consuming and complex, including requirements in some instances

that the Ministry of Commerce ("MOC") be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise. Moreover, the Anti-Monopoly Law requires that the MOC shall be notified in advance of any concentration of undertaking if certain thresholds are triggered. In addition, the security review rules issued by the MOC that became effective in September 2011 specify that mergers and acquisitions by foreign investors that raise "national defense and security" concerns and mergers and acquisitions through which foreign investors may acquire de facto control over domestic enterprises that raise "national security" concerns are subject to strict review by the MOC, and the rules prohibit any activities attempting to bypass a security review, including by structuring the transaction through a proxy or contractual control arrangement. On July 1, 2015, the National Security Law of China took effect, which provided that China would establish rules and mechanisms to conduct national security review of foreign investments in China that may impact national security. China's Foreign Investment Law, which became effective in January 2020, reiterates that China will establish a security review system for foreign investments. On December 19, 2020, the NDRC and the MOC jointly issued the Measures for the Security Review of Foreign Investments (the "New FISR Measures"), which was made according to the National Security Law and the Foreign Investment Law of China and became effective on January 18, 2021. The New FISR Measures further expand the scope of national security review on foreign investment compared to the existing rules, while leaving substantial room for interpretation and speculation. In the future, we may grow our business by acquiring complementary businesses. Complying with the requirements of the above-mentioned regulations and other relevant rules to complete such transactions could be time consuming, and any required approval processes, including obtaining approval from the MOC or its local counterparts may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share.

Our results of operations may be negatively impacted by fluctuations in foreign currency exchange rates between U.S. dollar and Chinese Yuan, or RMB.

While U.S. dollars is our main functional currency and our revenue and a significant portion of our operating expenses are denominated in U.S. dollars, we are required to maintain local currencies, primarily the RMB, in our cash balances in connection with the funding of our overseas operations. As a result, our costs and operating expenses may be exposed to adverse movements in foreign currency exchange rates between the U.S. dollar and RMB. We also do not utilize any financial instruments to hedge or reduce potential losses due to the fluctuation of foreign currency exchange rates. In general, any appreciation of U.S. dollars against a weaker RMB could reduce the value of our cash and cash equivalent balance, which could increase our operating expenses and negatively affect our cash flow, income and profitability. The value of RMB against the U.S. dollars may fluctuate and is affected by many factors outside of our control, including changes in political and economic conditions, implementation of new monetary policies by the Chinese government and changes in banking regulations, and there is no guarantee that we will be able to mitigate or recoup any losses due to a significant fluctuation in the U.S. dollar/RMB exchange rates.

PRC labor laws may adversely affect our results of operations.

The PRC government promulgated the Labor Contract Law of the PRC, effective on January 1, 2008, as amended, to govern the establishment of employment relationships between employers and employees, and the conclusion, performance, termination of and the amendment to employment contracts. The Labor Contract Law imposes greater liabilities on employers and significantly affects the cost of an employer's decision to reduce its workforce. Further, it requires that certain termination decisions be based upon seniority and not merit. In the event our subsidiaries decide to significantly change or decrease their workforce in China, the Labor Contract Law could adversely affect their ability to effect such changes in a manner that is most advantageous to our business or in a timely and cost-effective manner, thus materially and adversely affecting our financial condition and results of operations.

In recent years, compensation in various industries in China has increased and may continue to increase in the future. In order to attract and retain skilled personnel, we may need to increase the compensation of our employees. Compensation may, also, increase as inflationary pressure increases in China. In addition, under the Regulations on Paid Annual Leave for Employees, which became effective on January 1, 2008, employees who have served more than one year for a specific employer are entitled to a paid vacation ranging from 5 to 15 days, depending on length of service. Employees who waive such vacation time at the request of employers must be compensated for three times their normal salaries for each waived vacation day. This mandated paid-vacation regulation, coupled with the trend of increasing compensation, may result in increase in our employee-related costs and expenses and decrease in our profit margins.

Relations between Taiwan and China could negatively affect our business, financial condition and operating results and, therefore, the market value of our common shares.

Taiwan has a unique international political status. China does not recognize the sovereignty of Taiwan. Although significant economic and cultural relations have been established during recent years between Taiwan and China, relations have often been strained. A substantial number of our key customers and some of our essential sales and engineering personnel are located in Taiwan, and we have a large number of operational personnel and employees located in China. Therefore, factors affecting military, political or economic relationship between China and Taiwan could have an adverse effect on our business, financial condition and operating results.

Risks Related to Our Corporate Structure and Our Common Shares

Our share price may be volatile and you may be unable to sell your shares at or above the purchase price, if at all.

Limited trading volumes and liquidity of our common shares on the NASDAQ Global Select Market may limit the ability of shareholders to purchase or sell our common shares in the amounts and at the times they wish. In addition, the financial markets in the United States and other countries have experienced significant price and volume fluctuations, and market prices of technology companies have been and continue to be extremely volatile. The trading price of our common shares on The NASDAQ Global Select Market ranged from a low of \$23.36 to high of \$44.89 from July 1, 2022 to June 30, 2023. At July 31, 2023, the trading price of our common shares was \$32.88. Volatility in the price of our shares may be caused by factors outside our control and may be unrelated or disproportionate to our operating results.

The market price for our common shares may be volatile and subject to wide fluctuations in response to factors, including:

- actual or anticipated fluctuations in our operating results;
- general economic, industry, regional and global market conditions, including the economic conditions of specific market segments for our products, including the PC markets;
- our failure to meet analysts' expectations, including expectation regarding our revenue, gross margin and operating expenses;
- changes in financial estimates and outlook by securities research analysts;
- our ability to increase our gross margin;
- announcements by us or our competitors of new products, acquisitions, strategic partnerships, joint ventures or capital commitments;
- announcements of technological or competitive developments;
- announcement of acquisition, partnership and major corporate transactions;
- regulatory developments in our target markets affecting us, our customers or our competitors;
- our ability to enter into new market segments, gain market share, diversify our customer base and successfully secure manufacturing capacity;
- announcements regarding intellectual property disputes or litigation involving us or our competitors;
- changes in the estimation of the future size and growth rate of our markets;
- announcement of significant legal proceedings, litigation or government investigation;
- additions or departures of key personnel;
- repurchase of shares under our repurchase program;
- announcement of sales of our securities by us or by our major shareholders;
- general economic or political conditions in China and other countries in Asia; and
- other factors.

In the past, securities class action litigation has often been brought against a company following periods of volatility in such company's share price. This type of litigation could result in substantial costs and divert our management's attention and resources which could negatively impact our business and financial conditions. See Item 3. Legal Proceeding.

If securities or industry analysts adversely change their recommendations regarding our common shares or if our operating results do not meet their expectations, the trading price of our common shares could decline.

The market price of our common shares is influenced by the research and reports that industry or securities analysts publish about us or our business. There is no guarantee that these analysts will understand our business and results, or that their reports will be accurate or correctly predict our operating results or prospects. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause the market price of our common shares or its trading volume to decline. Moreover, if one or more of the analysts who cover our company downgrade our common shares or if our operating results or prospects do not meet their expectations, the market price of our common shares could decline significantly.

Anti-takeover provisions in our bye-laws could make an acquisition of us more difficult and may prevent attempts by our shareholders to replace or remove our current management.

Certain provisions in our bye-laws may delay or prevent an acquisition of us or a change in our management. In addition, by making it more difficult for shareholders to replace members of our board of directors, these provisions also may frustrate or prevent any attempts by our shareholders to replace or remove our current management because our board of directors is responsible for appointing the members of our management team. These provisions include:

- the ability of our board of directors to determine the rights, preferences and privileges of our preferred shares and to issue the preferred shares without shareholder approval;
- advance notice requirements for election to our board of directors and for proposing matters that can be acted upon at shareholder meetings; and
- the requirement to remove directors by a resolution passed by at least two-thirds of the votes cast by the shareholders having a right to attend and vote at the shareholder meeting.

These provisions could make it more difficult for a third-party to acquire us, even if the third-party's offer may be considered beneficial by many shareholders. As a result, shareholders may be limited in their ability to obtain a premium for their shares.

We are a Bermuda company and the rights of shareholders under Bermuda law may be different from U.S. laws.

We are a Bermuda limited liability exempted company. As a result, the rights of holders of our common shares will be governed by Bermuda law and our memorandum of association and bye-laws. The rights of shareholders under Bermuda law may differ from the rights of shareholders of companies incorporated in other jurisdictions, including the U.S. For example, some of our directors are not residents of the United States, and a substantial portion of our assets are located outside the United States. As a result, it may be difficult for investors to effect service of process on those persons in the U.S. or to enforce in the U.S. judgments obtained in U.S. courts against us or those persons based on civil liability provisions of the U.S. securities laws. It is doubtful whether courts in Bermuda will enforce judgments obtained in other jurisdictions, including the U.S., against us or our directors or officers under the securities laws of those jurisdictions or entertain actions in Bermuda against us or our directors or officers under the securities laws of other jurisdictions.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of July 31, 2023, our primary U.S. facility, which houses our research and design function, as well as elements of marketing and administration, is located in Sunnyvale, California. We conduct our manufacturing, research and development, sales and marketing and administration in Asia and North America. We lease all properties used in our business except the wafer fabrication facility in Oregon acquired in January 2012. The following table sets forth the location, size and primary use of our principal properties that are material to our business operations:

Location	Square Footage	Primary Use
475 Oakmead Parkway Sunnyvale, California, USA 94085	57,000	Research and development, marketing, sales and administration
3131 Northeast Brookwood Parkway Hillsboro, Oregon, USA 97124	252,950	Wafer fabrication facility
Building 8/9, No. 91, Lane 109, Rongkang Road, Songjiang District, Shanghai, China 201614	191,540	Packaging and testing, manufacturing support
Building B1, Dongkai Industrial Park, Songjiang Export Process Zone, Area B, Songjiang, Shanghai, China 201614	250,198	Packaging and testing, manufacturing support

We believe that our current facilities are adequate and that additional space will be available on commercially reasonable terms for the foreseeable future.

Item 3. 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. 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 complete its review.

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 4. Mine Safety Disclosures

Not Applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common shares have traded on the NASDAQ Global Select Market since April 29, 2010 under the symbol AOSL. As of July 31, 2023, there were approximately 147 holders of record of our common shares, not including those shares held in a street or nominee name.

Dividend Policy

We have never declared or paid cash dividends on our common shares. We currently intend to retain all available funds and any future earnings for use in the operation of our business and do not anticipate paying any dividends on our common share in the foreseeable future. Any future determination to declare dividends will be made at the discretion of our board of directors and will depend on our financial condition, operating results, capital requirements, general business conditions and other factors that our board of directors may deem relevant.

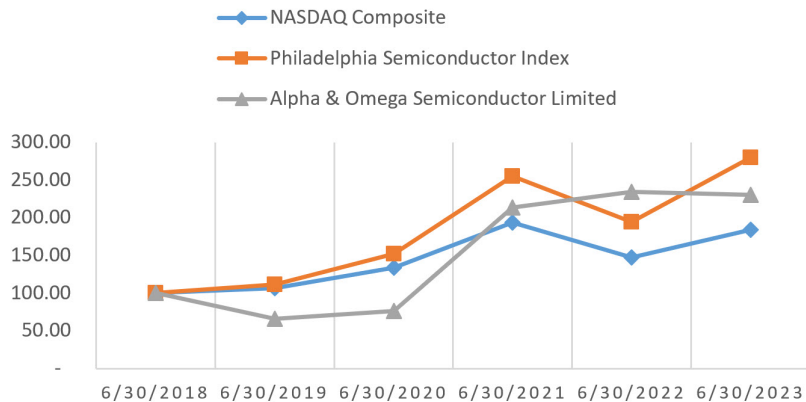
Securities Authorized for Issuance Under Equity Compensation Plans

See Item 12 of Part III of this report regarding information about securities authorized for issuance under our equity compensation plans.

Share Performance Graph

The following graph compares the total cumulative shareholder return on our common shares with the total cumulative return of the NASDAQ Composite Index and the Philadelphia Semiconductor Index for the last five fiscal years ended June 30, 2023, assuming an investment of \$100 at the beginning of such period and the reinvestment of any dividends.

The comparisons in the graph below are required by the SEC and are not intended to forecast or be indicative of possible future performance of our common shares.



The above Share Performance Graph and related information shall not be deemed "soliciting material" or to be "filed" with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or Securities Exchange Act of 1934, each as amended, except to the extent that the Company specifically incorporates it by reference into such filing.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

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. 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 fourth quarter of fiscal year 2023, the Company repurchased 441,269 shares under the Repurchase Program. As of June 30, 2023, there were no availability under this repurchase program, which is now terminated.

The following table sets for the share repurchases under this program during the fourth quarter of fiscal year 2023.

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Be Purchased Under the Plans or Programs
April 1, 2023 to April 30, 2023	374,379	\$ 24.37	374,379	—
May 1, 2023 to May 31, 2023	66,890	\$ 24.40	66,890	—
Jun 1, 2023 to June 30, 2023	—	\$ —	—	—
Total repurchase during the three months ended June 30, 2023	441,269	\$ 24.37	441,269	\$ —

Item 6. [Reserved]

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion of the financial condition and results of our operations in conjunction with our consolidated financial statements and the notes to those statements included elsewhere in this annual report. Our consolidated financial statements contained in this annual report are prepared in accordance with U.S. GAAP.

Overview

We are a designer, developer and global supplier of a broad range of power discretets, ICs, modules and digital power solutions including a wide portfolio of Power MOSFET, SiC, IGBT, IPM, TVS, Gate Drivers, Power IC, and Digital Power products. Our portfolio of power semiconductors includes approximately 2,600 products, and has grown significantly with the introduction of over 60 new products in the fiscal year ended June 30, 2023, and over 130 and 160 new products in the fiscal year ended June 30, 2022 and 2021, respectively. 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 918 patents and 45 patent applications in the United States as of June 30, 2023. We also have a total of 980 foreign patents, which primarily were based on our research and development efforts through June 30, 2023. 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 computers, graphic cards, game consoles, flat panel TVs, home appliances, power tools, smart phones, battery packs, consumer and industrial motor controls and power supplies for TVs, computers, servers and telecommunications equipment.

Our business model leverages global resources, including research and development and manufacturing in the United States and Asia. Our sales and technical support teams are localized in several growing markets. We operate 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.

On March 29, 2016, we formed the JV Company with the Chongqing Funds, for the purpose of constructing and operating the Chongqing Fab in the LiangJiang New Area of Chongqing, China. The Chongqing Fab was being built in phases. As of December 1, 2021, we owned 50.9%, and the Chongqing Funds owned 49.1% of the equity interest in the JV Company. The JV Company was accounted under the provisions of the consolidation guidance since we had controlling financial interest until December 1, 2021.

On December 1, 2021 (the “Effective Date”), Alpha & Omega Semiconductor (Shanghai) Ltd. (“AOS SH”) and Agape Package Manufacturing (Shanghai) Limited (“APM SH”) and, together with AOS SH, the “Sellers”), each a wholly-owned subsidiary of the Company, entered into a share transfer agreement (“STA”) with a third-party investor to sell a portion of the Company’s equity interest in the JV Company which consists of a power semiconductor packaging, testing and 12-inch wafer fabrication facility in Chongqing, China (the “Transaction”). The Transaction closed on December 2, 2021 (the “Closing Date”), which reduced the Company’s equity interest in the JV Company from 50.9% to 48.8%. Also, the Company’s right to designate directors on the board of JV Company was reduced to three (3) out of seven (7) directors, from four (4) directors prior to the Transaction. As a result of the Transaction and other factors, the Company no longer has a controlling financial interest in the JV Company and has determined that the JV Company was deconsolidated from the Company’s Consolidated Financial Statements effective as of the Closing Date.

On December 24, 2021, we entered into a share transfer agreement with another third-party investor, pursuant to which the Company sold to this investor 1.1% of outstanding equity interest held by us in the JV Company. In addition, the JV Company adopted an employee equity incentive plan and issued an equity interest equivalent to 3.99% of the JV Company in exchange for cash. As a result of these two transactions, the Company owned 45.8% of the equity interest in the JV Company as of December 31, 2021.

On January 26, 2022, the JV Company completed a financing transaction pursuant to a corporate investment agreement (the “Investment Agreement”) between the JV Company and certain third-party investors (the “New Investors”). Under the Investment Agreement, the New Investors purchased newly issued equity interest of the JV Company, representing approximately 7.82% of post-transaction outstanding equity interests of the JV Company, for a total purchase price of RMB 509 million (or approximately USD 80 million based on the currency exchange rate as of January 26, 2022) (the “Investment”). Following the closing of the January 26, 2022 Investment, the percentage of outstanding JV equity interest beneficially owned by the Company was reduced to 42.2% at both June 30, 2022 and 2023.

We reduced our ownership of the JV Company to below 50% to increase the flexibility of the JV Company to raise capital to fund its future expansion. The JV Company is also contemplating an eventual listing on the Science and Technology Innovation Board, or STAR Market, of the Shanghai Stock Exchange. The reduction of our ownership assists the JV Company in meeting certain regulatory listing requirements. A potential STAR Market listing may take several years to consummate and there is no guarantee that such listing by the JV Company will be successful or will be completed in a timely manner, or at all. In addition, the JV Company will continue to provide us with significant level of foundry capacity to enable us to develop and manufacture our products. On July 12, 2022, the current shareholders of the JV Company entered into a shareholders contract, pursuant to which the JV Company provided us with a monthly wafer production capacity guarantee, subject to future increase when the JV Company's production capacity reaches certain specified level.

Impact of COVID-19 Pandemic to Our Business

During the first half of calendar year 2022, our operations were negatively impacted by China's zero-Covid policy that resulted in factory shutdowns and supply chain shortages, including the temporary suspension of our factory operations in Shanghai from April to June 2022. In December 2022, the Chinese government issued new guidelines easing some of its strict zero-COVID policies, including the relaxation of testing requirements and travel restrictions. In May 2023, World Health Organization (WHO) declared an end to the COVID-19 pandemic. As of June 30, 2023, our business operations and financial performance were no longer affected by the pandemic.

Other Factors Affecting Our Performance

The global, regional economic and PC market conditions: Because our products primarily serve consumer electronic applications, any significant changes in global and regional economic conditions could materially affect our revenue and results of operations. A significant amount of our revenue is derived from sales of products in the PC markets, such as notebooks, motherboards and notebook battery packs. Therefore, a substantial decline 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. Since mid-2022, we have experienced an industry-wide decline of customer demand for semiconductor products. This decline has negatively affected our recent financial performance in 2023. While we expect some continued recovery of our revenue in the September quarter of 2023, there is no guarantee that it will occur. A prolonged and extended downturn in the semiconductor industry would have a substantial impact on our operating results and financial conditions.

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 and our Oregon Fab. If we are unable to utilize our manufacturing facilities at a desired level, our gross margin may be adversely affected. In addition, 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 enhanced 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 substantially 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 because of lack of control over the JV Company's operation. As a result of sales of our JV Company equity interests and issuance of additional equity interests by the JV Company to third-party investors in financing transactions, our equity interest in the JV Company was reduced to 42.2%, which reduced our control and influence over the JV Company. We continue to maintain a business relationship with the JV Company to ensure uninterrupted supply of manufacturing capacity. On July 12, 2022, we entered into an agreement with the JV Company, pursuant to which the JV Company agrees to provide us with a monthly wafer production capacity guarantee, subject to future increase when the JV Company's production capacity reaches certain specified level.

Because we continue to rely on the JV Company to provide us with manufacturing capacity, if the JV Company take actions or make decisions that prevents us from accessing required capacity, our operations may be adversely affected.

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.

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.

Principal line items of statements of operations

The following describes the principal line items set forth in our 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 certain 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.

In February 2023, we entered into a license agreement with a customer to license our proprietary SiC technology and to provide 24-months of engineering and development services for a total fee of \$45 million, consisting of an upfront fee of \$18 million and 6.8 million paid to us in the March and July 2023, with the remaining amount to be paid upon the achievement of

specified engineering services and product milestones. The license and development fee is determined to be one performance obligation and is recognized over the 24 months when we perform the engineering and development services. We use the input method to measure progression of the transfer of services. We also entered an accompanying supply agreement to provide limited wafer supply to the customer.

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

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

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

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 U.S. affiliates, where such payments reduce the U.S. 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. Coronavirus Aid, Relief and Economic Security Act” (“CARES Act”), Enacted March 27, 2020

On March 27, 2020, the United States enacted the CARES Act, which made the changes to existing U.S. tax laws, including, but not limited to, (1) allowing U.S. federal net operating losses originated in the 2018, 2019 or 2020 tax years to be carried back five years to recover taxes paid based upon taxable income in the prior five years, (2) eliminated the 80% of taxable income limitation on net operating losses for the 2018, 2019 and 2020 tax years (the 80% limitation will be reinstated for tax years after 2020), (3) accelerating the refund of prior year alternative minimum tax credits, (4) modifying the bonus depreciation for qualified improvement property and (5) modifying the limitation on deductible interest expense.

As a result of the ability to carryback net operating losses from the June 2018 and June 2019 years to the June 2015 to June 2017 tax years, net operating losses which were previously tax-effected using the current 21% U.S. federal tax rate were revalued to the U.S. tax rates in effect for the June 2015 to June 2017 tax years due to the ability of receiving tax refunds for the taxes paid in these years. Accordingly, we reported a discrete tax benefit of \$1.1 million in the third quarter of fiscal year 2020 related to the re-measurement of the net operating losses that could be realized via the new net operating loss carryback provisions.

“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.

“The Chip and Science Act of 2022”, Enacted August 2, 2022

In August 2022 the U.S. enacted the Chip and Science Act of 2022 (the Chips Act). The Chips Act provides incentives to semiconductor chip manufacturers in the United States, including providing manufacturing investment credits of 25% for investments in semiconductor manufacturing property placed in service after December 31, 2022, for which construction begins before January 1, 2027. Property investments qualify for the 25% credit if, among other requirements, the property is integral to the operation of an advanced manufacturing facility, defined as having a primary purpose of manufacturing semiconductors or semiconductor manufacturing equipment. Currently, we are evaluating the impact of the Chips Act to us.

“The Inflation Reduction Act”, Enacted August 16, 2022

In August 2022 the United States enacted tax legislation through the Inflation Reduction Act (IRA). The IRA introduces a 15% corporate alternative minimum tax (CAMT) for corporations whose average annual adjusted financial statement income (AFSI) for any consecutive three-tax-year period preceding the applicable tax year exceeds \$1 billion. The CAMT is effective for tax years beginning after 31 December 2022. The CAMT is currently not applicable to the Company.

Equity method investment income/loss from equity investee

We use the equity method of accounting when we have the ability to exercise significant influence, but we do not have control, as determined in accordance with generally accepted accounting principles, over the operating and financial policies of

the company. Effective December 2, 2021, we reduced our equity interest in the JV Company below 50% of outstanding equity ownership and experienced a loss of control of the JV Company. As a result, we record our investment under equity method of accounting. Since we are unable to obtain accurate financial information from the JV Company in a timely manner, we record our share of earnings or losses of such affiliate on a one quarter lag.

We record our interest in the net earnings of the equity method investee, along with adjustments for unrealized profits or losses on intra-entity transactions and amortization of basis differences, within earnings or loss from equity interests in the Consolidated Statements of Operations. Profits or losses related to intra-entity sales with the equity method investee are eliminated until realized by the investor or investee. Basis differences represent differences between the cost of the investment and the underlying equity in net assets of the investment and are generally amortized over the lives of the related assets that gave rise to them. Equity method goodwill is not amortized or tested for impairment. Instead the total equity method investment balance, including equity method goodwill, is tested for impairment. We review for impairment whenever factors indicate that the carrying amount of the investment might not be recoverable. In such a case, the decrease in value is recognized in the period the impairment occurs in the Consolidated Statement of Operations.

Operating results

The following tables set forth our results of operations and as a percentage of revenue for the fiscal years ended June 30, 2023, 2022 and 2021. Our historical results of operations are not necessarily indicative of the results for any future period.

	Year Ended June 30,					
	2023	2022	2021	2023	2022	2021
	(in thousands)			(% of revenue)		
Revenue	\$ 691,321	\$ 777,552	\$ 656,902	100.0 %	100.0 %	100.0 %
Cost of goods sold (1)	491,785	508,996	452,359	71.1 %	65.5 %	68.9 %
Gross profit	199,536	268,556	204,543	28.9 %	34.5 %	31.1 %
Operating expenses:						
Research and development (1)	88,146	71,259	62,953	12.8 %	9.2 %	9.6 %
Selling, general and administrative (1)	88,861	95,259	77,514	12.8 %	12.3 %	11.8 %
Total operating expenses	177,007	166,518	140,467	25.6 %	21.5 %	21.4 %
Operating income	22,529	102,038	64,076	3.3 %	13.0 %	9.7 %
Other income (loss), net	(1,730)	999	2,456	(0.3)%	0.1 %	0.4 %
Interest expense, net	(1,087)	(3,920)	(6,308)	(0.2)%	(0.5)%	(1.0)%
Gain on deconsolidation of the JV Company	—	399,093	—	—%	51.3 %	—%
Loss on changes of equity interest in the JV Company, net	—	(3,140)	—	—%	(0.4)%	—%
Net income before income taxes	19,712	495,070	60,224	2.8 %	63.5 %	9.1 %
Income tax expense	5,937	39,258	3,935	0.9 %	5.0 %	0.6 %
Net income before loss from equity method investment	13,775	455,812	56,289	1.9 %	58.5 %	8.5 %
Equity method investment loss from equity investee	(1,411)	(2,629)	—	(0.1)%	(0.3)%	—%
Net income	12,364	453,183	56,289	1.8 %	58.2 %	8.5 %
Net income (loss) attributable to noncontrolling interest	—	20	(1,827)	0.0 %	0.0 %	(0.3)%
Net income attributable to Alpha and Omega Semiconductor Limited	\$ 12,364	\$ 453,163	\$ 58,116	1.8 %	58.2 %	8.8 %

(1) Includes share-based compensation expense as follows:

	Year Ended June 30,					
	2023	2022	2021	2023	2022	2021
	(in thousands)			(% of revenue)		
Cost of goods sold	\$ 5,851	\$ 5,125	\$ 1,756	0.8 %	0.7 %	0.3 %
Research and development	9,437	7,049	5,352	1.4 %	0.9 %	0.8 %
Selling, general and administrative	22,200	19,150	8,216	3.2 %	2.5 %	1.3 %
	\$ 37,488	\$ 31,324	\$ 15,324	5.4 %	4.1 %	2.4 %

Revenue

The following is a summary of revenue by product type:

	Year Ended June 30,			Change			
	2023	2022	2021	2023		2022	
	(in thousands)			(in thousands)	(in percentage)	(in thousands)	(in percentage)
Power discrete	\$ 458,795	\$ 545,135	\$ 482,718	\$ (86,340)	(15.8)%	\$ 62,417	12.9 %
Power IC	218,620	220,882	161,726	(2,262)	(1.0)%	59,156	36.6 %
Packaging and testing services	3,979	11,535	12,458	(7,556)	(65.5)%	(923)	(7.4)%
License and development services	9,927	—	—	9,927	100.0 %	—	— %
	<u>\$ 691,321</u>	<u>\$ 777,552</u>	<u>\$ 656,902</u>	<u>\$ (86,231)</u>	<u>(11.1)%</u>	<u>\$ 120,650</u>	<u>18.4 %</u>

	Year Ended June 30,			Change			
	2023	2022	2021	2023		2022	
	(in thousands)			(in thousands)	(in percentage)	(in thousands)	(in percentage)
Computing	\$ 243,286	\$ 345,855	\$ 279,150	\$ (102,569)	(29.7)%	\$ 66,705	23.9 %
Consumer	180,753	160,808	145,346	19,945	12.4 %	15,462	10.6 %
Communication	103,218	110,356	97,395	(7,138)	(6.5)%	12,961	13.3 %
Power Supply and Industrial	150,158	149,000	122,553	1,158	0.8 %	26,447	21.6 %
Packaging and testing services	3,979	11,533	12,458	(7,554)	(65.5)%	(925)	(7.4)%
License and development services	9,927	—	—	9,927	100.0 %	—	— %
	<u>\$ 691,321</u>	<u>\$ 777,552</u>	<u>\$ 656,902</u>	<u>\$ (86,231)</u>	<u>(11.1)%</u>	<u>\$ 120,650</u>	<u>18.4 %</u>

Fiscal 2023 vs 2022

Total revenue was \$691.3 million for fiscal year 2023, a decrease of \$86.2 million, or 11.1%, as compared to \$777.6 million for fiscal year 2022. The decrease was primarily due to a decrease of \$86.3 million and \$2.3 million in sales of power discrete products and power IC products, respectively. The decrease in power discrete and power IC product sales was primarily due to a 30.1% decrease in unit shipments, offset by a 26.9% increase in average selling price as compared to last fiscal year due to a shift in product mix. The decrease in revenues was primarily driven by the significant decrease in the computing market, reflecting weaker demand for computers and inventory correction by our customers, in response to the industry-wide downturn in the semiconductor industry, partially offset by increased sales in the consumer markets, particularly in gaming products. The decrease in revenue from packaging and testing services for the fiscal year 2023 as compared to last fiscal year was primarily due to decreased demand. The increase in license and development services for the fiscal year 2023 was related to the license agreement with a customer to license our proprietary SiC technology and to provide 24-months of engineering and development services in February 2023. During fiscal year 2023, we accelerated the development of new technology platforms which allowed us to introduce 19 medium and high voltage MOSFET products, targeting primarily the industrial markets and communication marketing, and 6 module products primarily for the consumer markets, as well as 4 low voltage MOSFET products primarily for the computing and communication markets. In addition, we introduced 40 Power IC new products for computing applications, communication and consumer markets.

Fiscal 2022 vs 2021

Total revenue was \$777.6 million for fiscal year 2022, an increase of \$120.7 million, or 18.4%, as compared to \$656.9 million for fiscal year 2021. The increase was primarily due to an increase of \$62.4 million in sales of power discrete products and an increase of \$59.2 million in sales of power IC products. The increase in power discrete and power IC product sales was primarily due to a 21.0% increase in average selling price as compared to last fiscal year due to a shift in product mix, partially offset by a 2.1% decrease in unit shipments. The decrease in revenue of packaging and testing services for the fiscal year 2022 as compared to last fiscal year was primarily due to decreased demand.

Cost of goods sold and gross profit

	Year Ended June 30,			Change			
	2023	2022	2021	2023		2022	
	(in thousands)			(in thousands)	(in percentage)	(in thousands)	(in percentage)
Cost of goods sold	\$ 491,785	\$ 508,996	\$ 452,359	\$ (17,211)	(3.4)%	\$ 56,637	12.5 %
Percentage of revenue	71.1 %	65.5 %	68.9 %				
Gross profit	\$ 199,536	\$ 268,556	\$ 204,543	\$ (69,020)	(25.7)%	\$ 64,013	31.3 %
Percentage of revenue	28.9 %	34.5 %	31.1 %				

Fiscal 2023 vs 2022

Cost of goods sold was \$491.8 million for fiscal year 2023, a decrease of \$17.2 million, or 3.4%, as compared to \$509.0 million for fiscal year 2022. The decrease was primarily due to 11.1% decrease in revenue. Gross margin decreased by 5.6 percentage points to 28.9% for the fiscal year 2023, as compared to 34.5% for the fiscal year 2022. The decrease in gross margin was primarily due to higher material costs and lower unit shipments during the fiscal year ended June 30, 2023. We expect our gross margin to continue to fluctuate in the future as a result of variations in our product mix, semiconductor wafer and raw material pricing, manufacturing labor cost and general economic and PC market conditions.

Fiscal 2022 vs 2021

Cost of goods sold was \$509.0 million for fiscal year 2022, an increase of \$56.6 million, or 12.5%, as compared to \$452.4 million for fiscal year 2021. The increase was primarily due to 18.4% increase in revenue. Gross margin increased by 3.4 percentage points to 34.5% for the fiscal year 2022, as compared to 31.1% for the fiscal year 2021. The increase in gross margin was primarily due to better product mix during the fiscal year ended June 30, 2022.

Research and development expenses

	Year Ended June 30,			Change			
	2023	2022	2021	2023		2022	
	(in thousands)			(in thousands)	(in percentage)	(in thousands)	(in percentage)
Research and development	\$ 88,146	\$ 71,259	\$ 62,953	\$ 16,887	23.7 %	\$ 8,306	13.2 %

Fiscal 2023 vs 2022

Research and development expenses were \$88.1 million for fiscal year 2023, an increase of \$16.9 million, or 23.7%, as compared to \$71.3 million for fiscal year 2022. The increase was primarily attributable to a \$3.9 million increase in employee compensation and benefit expense mainly due to increased headcount and higher medical insurance expenses, partially offset by lower vacation accrual and lower bonus accrual, a \$2.4 million increase in share-based compensation expense due to an increase in stock awards granted, a \$3.6 million increase in depreciation expenses, a \$2.2 million increase in allocation, and a \$4.8 million increase in product prototyping engineering expense as a result of increased engineering activities. We continue to evaluate and invest resources in developing new technologies and products utilizing our own fabrication and packaging facilities. We believe the investment in research and development is important to meet our strategic objectives.

Fiscal 2022 vs 2021

Research and development expenses were \$71.3 million for fiscal year 2022, an increase of \$8.3 million, or 13.2%, as compared to \$63.0 million for fiscal year 2021. The increase was primarily attributable to a \$6.8 million increase in employee compensation and benefit expense mainly due to higher bonus accrual, increased headcount and annual merit increase, a \$1.7 million increase in share-based compensation expense due to an increase in stock awards granted, a \$0.2 million increase in depreciation expenses, and a \$0.2 million increase in professional fees, partially offset by a \$0.8 million decrease in product prototyping engineering expense as a result of decreased engineering activities.

Selling, general and administrative expenses

	Year Ended June 30,			Change			
	2023	2022	2021	2023		2022	
	(in thousands)			(in thousands)	(in percentage)	(in thousands)	(in percentage)
Selling, general and administrative	\$ 88,861	\$ 95,259	\$ 77,514	\$ (6,398)	(6.7)%	\$ 17,745	22.9 %

Fiscal 2023 vs 2022

Selling, general and administrative expenses were \$88.9 million for fiscal year 2023, a decrease of \$6.4 million, or 6.7%, as compared to \$95.3 million for fiscal year 2022. The decrease was primarily attributable to a \$11.3 million decrease in employee compensation and benefits expenses mainly due to lower bonus expenses accrual and lower vacation accrual, partially offset by increased headcount, higher medical and business insurance expenses, as well as a \$1.5 million decrease in cyber security incident, partially offset by a \$3.1 million increase in share-based compensation expense due to an increase in stock award granted and the incremental expenses for one of our former officers' equity shares resulting from the modification, a \$1.1 million increase in legal expenses, a \$0.7 million increase in recruiting and consulting fees, a \$1.2 million increase in allocation, and a \$0.8 million increase in employee business expenses.

Fiscal 2022 vs 2021

Selling, general and administrative expenses were \$95.3 million for fiscal year 2022, an increase of \$17.7 million, or 22.9%, as compared to \$77.5 million for fiscal year 2021. The increase was primarily attributable to a \$8.6 million increase in employee compensation and benefits expenses mainly due to increased headcount, annual merit increase, higher bonus expenses and increased employee and business insurance expenses, as well as \$10.9 million increase in share-based compensation expense due to increase in stock award granted, partially offset by a \$2.2 million decrease in legal expense related to the government investigation.

Other income (loss), net

	Year Ended June 30,			Change			
	2023	2022	2021	2023		2022	
	(in thousands)			(in thousands)	(in percentage)	(in thousands)	(in percentage)
Other income (loss), net	\$ (1,730)	\$ 999	\$ 2,456	\$ (2,729)	(273.2)%	\$ (1,457)	(59.3)%

Other income (loss), net decreased by \$2.7 million in fiscal year 2023 as compared to the last fiscal year primarily due to increase in foreign currency exchange loss as a result of the depreciation of RMB against USD.

Other income (loss), net decreased by \$1.5 million in fiscal year 2022 as compared to the last fiscal year primarily due to increase in foreign currency exchange loss as a result of the depreciation of RMB against USD.

Interest expense, net

	Year Ended June 30,			Change			
	2023	2022	2021	2023		2022	
	(in thousands)			(in thousands)	(in percentage)	(in thousands)	(in percentage)
Interest expense, net	\$ (1,087)	\$ (3,920)	\$ (6,308)	\$ 2,833	(72.3)%	\$ 2,388	(37.9)%

Interest expense was primarily related to bank borrowings. Interest expense decreased by \$2.8 million in fiscal year 2023 as compared to the prior fiscal year primarily due to a \$3.6 million increase in interest income as a result of higher interest rate, offset by a \$0.7 million increase in interest expense as a result of an increase in bank borrowings during the periods.

Interest expense decreased by \$2.4 million in fiscal year 2022 as compared to the fiscal year 2021 primarily because of deconsolidation of the JV Company in December 2021.

Gain on deconsolidation of the JV Company and Gain/loss on changes of equity interest in the JV Company

Effective December 1, 2021, we entered into the STA with the Investor, pursuant to which we sold to the Investor approximately 2.1% of outstanding equity interest held by us in the JV Company for an aggregate purchase price of RMB 108 million or approximately \$16.9 million. The STA contained customary representations, warranties and covenants. The Transaction was closed on December 2, 2021. As a result of the Transaction, as of the Closing Date, our equity interest in the JV Company decreased from 50.9% to 48.8%. Also, our right to designate directors on the board of JV Company was reduced to three (3) out of seven (7) directors, from four (4) directors prior to the Transaction. We no longer have a controlling financial interest in the JV Company under generally accepted accounting principles. Loss of control is deemed to have occurred when, among other things, a parent company owns less than a majority of the outstanding common stock in the subsidiary, lacks a controlling financial interest in the subsidiary and, is unable to unilaterally control the subsidiary through other means such as having, or the ability to obtain, a majority of the subsidiary's board of directors. All of these loss of control factors were present for us as of December 2, 2021. Accordingly, since December 2, 2021, AOS has accounted for its investment in the JV Company using the equity method of accounting. On December 24, 2021, we entered into a share transfer agreement with another third-party investor, pursuant to which we sold to this investor 1.1% of outstanding equity interest held by us in the JV Company for an aggregate purchase price of RMB 60 million or approximately \$9.4 million. In addition, the JV Company adopted an employee equity incentive plan and issued an equity interest equivalent to 3.99% of the JV Company to exchange in cash. As a result, the Company owned 45.8% of the equity interest in the JV Company as of December 31, 2021. On January 26, 2022, the JV Company completed a financing transaction pursuant to the Financing Agreement between the JV Company and certain New Investors. Under the Financing Agreement, the New Investors purchased newly issued equity interest of the JV Company for a total purchase price of RMB 509 million (or approximately \$80 million based on the currency exchange rate as of January 26, 2022). Following the closing of the Investment, the percentage of outstanding JV Company equity interest beneficially owned by us was reduced to 42.2%.

During the fiscal year ended June 30, 2022, we recorded a gain of \$399.1 million on deconsolidation of the JV Company, and a \$3.1 million of loss on changes of equity interest in the JV Company.

We account for our investment in the JV Company as an equity method investment and report our equity in earnings or loss of the JV Company on a three-month lag due to our inability to timely obtain financial information of the JV Company. For the fiscal year ended June 30, 2023 and June 30, 2022 using lag reporting, we recorded \$1.4 million and 2.6 million of its equity in loss of the JV Company, respectively.

Income tax expense

	Year Ended June 30,			Change			
	2023	2022	2021	2023		2022	
	(in thousands)			(in thousands)	(in percentage)	(in thousands)	(in percentage)
Income tax expense	\$ 5,937	\$ 39,258	\$ 3,935	\$ (33,321)	(84.9)%	\$ 35,323	897.7 %

Fiscal 2023 vs 2022

Income tax expense for fiscal years 2023 and 2022 was \$5.9 million and \$39.3 million, respectively. Income tax expense decreased by \$33.3 million, or 84.9% in fiscal year 2023 as compared to fiscal year 2022. The income tax expense of \$5.9 million for the year ended June 30, 2023 included a \$0.1 million discrete tax expense, and the income tax expense of \$39.3 million for the year ended June 30, 2022 included a \$33.5 million discrete tax expense related to the Company's \$396.0 million of income from the sale of equity interest in a joint venture and the related deconsolidation gain as the Company changed from the consolidation method of accounting to the equity method of accounting. In addition, for the year ended June 30, 2022 we recorded a tax benefit of \$0.4 million from other discrete income tax items. Excluding the discrete income tax items, the effective tax rate for the years ended June 30, 2023 and 2022 was 29.4% and 6.3%, respectively. The changes in the tax expense and effective tax rate between the periods resulted primarily from the Company reporting pretax book income of \$19.7 million for the year ended June 30, 2023 as compared to a pretax book income of \$495.0 million (\$99.0 million of pretax book income plus the \$396.0 million of income from the sale of equity interest in a joint venture and the related deconsolidation gain) for the year ended June 30, 2022 as well as changes in the mix of earnings in various geographic jurisdictions between the current year and the same period of last year.

Fiscal 2022 vs 2021

Income tax expense for fiscal years 2022 and 2021 was \$39.3 million and \$3.9 million, respectively. Income tax expense increased by \$35.3 million, or 897.7% in fiscal year 2022 as compared to fiscal year 2021. The income tax expense of \$39.3 million for the year ended June 30, 2022 included a \$33.5 million discrete tax expense related to the Company's \$396.0 million

of income from the sale of equity interest in a joint venture and the related deconsolidation gain as the Company changed from the consolidation method of accounting to the equity method of accounting. In addition, we recorded a tax benefit of \$0.4 million from other discrete income tax items. The income tax expense of \$3.9 million for the year ended June 30, 2021 included a \$0.3 million discrete tax benefit. Excluding the discrete income tax items (\$396.0 million of income from the sale of equity interest in a joint venture and the related deconsolidation gain as well as other discrete items), the effective tax rate for the years ended June 30, 2022 and 2021 was 6.3% and 7.1%, respectively. The changes in the tax expense and effective tax rate between the periods resulted primarily from the Company reporting pretax book income of \$495.0 million (\$99.0 million of pretax book income plus the \$396.0 million of income from the sale of equity interest in a joint venture and the related deconsolidation gain) for the year ended June 30, 2022 as compared to a pretax book income of \$60.2 million for the year ended June 30, 2021 as well as changes in the mix of earnings in various geographic jurisdictions between the current year and the same period of last year.

Liquidity and Capital Resources

Our principal need for liquidity and capital resources is to maintain sufficient working capital to support our operations and to invest adequate capital expenditures to grow our business. 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 February 6, 2023, we entered into a license and engineering service agreement with a leading power semiconductor automotive supplier related to our Silicon Carbide (SiC) MOSFET and diode technology. Pursuant to the agreement, we license and provide 24-months of engineering support for our proprietary SiC technology to the supplier for a total fee of \$45 million, consisted of an upfront fees of \$18 million and \$6.8 million paid to us in March 2023 and July 2023, respectively, and the remaining amount to be paid upon our achievements of specified business and product milestones. In addition, we entered an accompanying supply agreement with the supplier to provide it with limited wafer supply.

In January 2023, one of the Company's subsidiaries in China entered into a line of credit facility with Bank of Communications Limited in China. The purpose of the credit facility is to provide working capital borrowings. The Company could borrow up to approximately RMB 140 million or \$20.6 million based on currency exchange rate between RMB and U.S. Dollar on January 31, 2023 with a maturity date of December 1, 2023. As of June 30, 2023, there was no outstanding balance for this loan.

In September 2022, one of the Company's subsidiaries 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 working capital 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 September 20, 2022 with a maturity date of September 30, 2023. As of June 30, 2023, there was no outstanding balance.

In September 2021, Jireh Semiconductor Incorporated ("Jireh"), one of the wholly-owned subsidiaries, entered into a financing arrangement agreement with a company ("Lender") for the lease and purchase of a machinery equipment manufactured by a supplier. This agreement has a 5 years term, after which Jireh has the option to purchase the equipment for \$1. The implied interest rate was 4.75% per annum which was adjustable based on every five basis point increase in 60-month U.S. Treasury Notes, until the final installation and acceptance of the equipment. The total purchase price of this equipment was euro 12.0 million. In April 2021, Jireh made a down payment of euro 6.0 million, representing 50% of the total purchase price of the equipment, to the supplier. In June 2022, the equipment was delivered to Jireh after Lender paid 40% of the total purchase price, for euro 4.8 million, to the supplier on behalf of Jireh. In September 2022, Lender paid the remaining 10% payment for the total purchase price and reimbursed Jireh for the 50% down payment, after the installation and configuration of the equipment. The title of the equipment was transferred to Lender following such payment. The agreement was amended with fixed implied interest rate of 7.51% and monthly payment of principal and interest effective in October 2022. Other terms remain the same. In addition, Jireh purchased hardware for the machine under this financing arrangement. The purchase price of this hardware was \$0.2 million. The financing arrangement is secured by this equipment and other equipment which had the carrying amount of \$15.2 million as of June 30, 2023. As of June 30, 2023, the outstanding balance of this debt financing was \$11.9 million.

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 years 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 the Company is required to maintain. Jireh drew down \$45.0 million on February 16, 2022 with the first payment of principal beginning in October 2022. As of June 30, 2023, Jireh was in compliance with these covenants and the outstanding balance of this loan was \$38.3 million.

In October 2019, one of the Company's subsidiaries in China entered into a line of credit facility with Bank of Communications Limited in China. This line of credit matured on February 14, 2021 and was 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. During the three months ended December 31, 2021, the Company borrowed RMB 11.0 million, or \$1.6 million, at an interest rate of 3.85% per annum, with principal due on November 18, 2022. As of June 30, 2023, there was no outstanding balance and this loan was expired.

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. The Borrower was in compliance with these covenants as of June 30, 2023. As of June 30, 2023, there was no outstanding balance and the Company had unused credit of approximately \$8.0 million.

On November 16, 2018, one of the Company's subsidiaries 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. During the three months ended December 31, 2021, the Company borrowed RMB 5.0 million, or \$0.8 million, at an interest rate of 3.7% per annum, with principal due on September 12, 2022. As of June 30, 2023, there was no outstanding balance and this loan was expired.

On May 1, 2018, Jireh entered into a loan agreement with the Bank that provided a term loan in an 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. Jireh made consecutive monthly payments of principal and interest to the Bank. The outstanding principal shall accrue 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 paid this loan in full on May 1, 2023. As of June 30, 2023, there was no outstanding balance and this loan was expired.

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 fabrication facility located in Oregon. The obligation under the credit agreement was secured by substantially all assets of Jireh and guaranteed by the Company. The credit agreement had a five-year term and matured on August 15, 2022. In January 2018 and July 2018, Jireh drew down on the loan in the amount of \$13.2 million and \$16.7 million, respectively. Beginning in October 2018, Jireh was required to pay to the Bank on each payment date, the outstanding principal amount of the loan in monthly installments. The loan accrued interest based on an adjusted London Interbank Offered Rate ("LIBOR") as defined in the credit agreement, plus specified applicable margin in the range of 1.75% to 2.25%, based on the outstanding balance of the loan. The credit agreement contained customary restrictive covenants and included certain financial covenants that required 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 loan was fully paid off in September, 2022. As of June 30, 2023, there was no outstanding balance and this loan was expired.

The Chinese government imposes certain currency exchange controls on cash transfers out of China. Regulations in China permit foreign owned entities to freely convert the Renminbi into foreign currency for transactions that fall under the "current account," which includes trade related receipts and payments, interests, and dividend payments. Accordingly, subject to the review and verification of the underlying transaction documents and supporting documents by the account banks in China, our Chinese subsidiaries may use Renminbi to purchase foreign exchange currency for settlement of such "current account" transactions without the pre-approval from China's State Administration of Foreign Exchange (SAFE) or its provincial branch. Pursuant to applicable regulations, foreign-invested enterprises in China may pay dividends only out of their accumulated profits, if any, determined in accordance with Chinese accounting standards and regulations. In calculating accumulated profits, foreign-invested enterprises in China are required to allocate 10% of their profits each year, if any, to fund the equity reserve account unless the reserve has reached 50% of the registered capital of the enterprises. While SAFE approval is not statutorily required for eligible dividend payments to the foreign parent, in practice, before making the dividend payment, the account bank may seek SAFE's opinion with respect to a dividend payment if the payment involves a relatively large amount, which may delay the dividend payment depending on the then overall status of cross-border payments and receipts of China.

Transactions that involve conversion of Renminbi into foreign currency in relation to foreign direct investments and provision of debt financings in China are classified as “capital account” transactions. Examples of “capital account” transactions include repatriations of investments by foreign owners and repayments of loan principal to foreign lenders. “Capital account” transactions require prior approval from SAFE or its provincial branch or an account bank delegated by SAFE to convert a remittance into a foreign currency, such as U.S. dollars, and transmit the foreign currency outside of China. As a result of this and other restrictions under PRC laws and regulations, our China subsidiaries are restricted in their ability to transfer a portion of their net assets to us, and such restriction may adversely affect our ability to generate sufficient liquidity to fund our operations or other expenditures. As of June 30, 2023 and 2022, such restricted portion amounted to approximately \$93.2 million and \$92.4 million, or 10.5% and 10.8%, of our total consolidated net assets attributable to the Company, respectively.

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

Cash, cash equivalents and restricted cash

As of June 30, 2023 and 2022, we had \$195.6 million and \$314.7 million of cash, cash equivalents and restricted cash, respectively. Our cash, cash equivalents and restricted cash primarily consisted of cash on hand, restricted cash and short-term bank deposits with original maturities of three months or less. Of the \$195.6 million and \$314.7 million cash and cash equivalents, \$108.2 million and \$212.6 million, respectively, were 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:

	Year Ended June 30,		
	2023	2022	2021
	(in thousands)		
Net cash provided by operating activities	\$ 20,473	\$ 218,865	\$ 128,744
Net cash used in investing activities	(109,630)	(130,822)	(72,539)
Net cash provided by (used in) financing activities	(29,611)	21,854	(18,991)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(280)	(59)	4,895
Net increase (decrease) in cash, cash equivalents and restricted cash	\$ (119,048)	\$ 109,838	\$ 42,109

Cash flows from operating activities

Net cash provided by operating activities of \$20.5 million for fiscal year 2023 resulted primarily from net income of \$12.4 million, non-cash charges of \$80.9 million and net change in assets and liabilities providing net cash of \$72.8 million. The non-cash charges of \$80.9 million included depreciation and amortization expenses of \$43.2 million, share-based compensation expense of \$37.5 million, equity method investment loss from equity investee of \$1.4 million, the net deferred income taxes of \$1.4 million and loss on disposal of property and equipment of \$0.2 million. The net change in assets and liabilities providing net cash of \$72.8 million was primarily due to \$45.5 million decrease in accrued and other liabilities, other payable on equity investee of \$17.0 million, and \$19.6 million decrease in accounts payable primarily due to timing of payment, \$25.2 million increase in inventories, \$18.7 million increase in other current and long-term assets primarily due to decrease in advance payments to suppliers, partially offset by \$43.3 million decrease in accounts receivable due to timing of billings and collection of payments, \$8.1 million increase in deferred revenue, and \$2.0 million increase in income taxes payable.

Net cash provided by operating activities of \$218.9 million for fiscal year 2022 resulted primarily from net income of \$453.2 million, non-cash charges of \$287.6 million and net change in assets and liabilities providing net cash of \$53.3 million. The non-cash charges of \$287.6 million included depreciation and amortization expenses of \$42.9 million, share-based compensation expense of \$31.3 million, gain on deconsolidation of the JV Company of \$399.1 million, loss on changes of equity interest in the JV Company, net of \$3.1 million, deferred income tax on deconsolidation and changes of equity interest in

the JV Company of \$30.0 million, equity method investment loss from equity investee of \$2.6 million, and net deferred income taxes of \$1.6 million. The net change in assets and liabilities providing net cash of \$53.3 million was primarily due to \$76.4 million increase in accrued and other liabilities, income taxes payable on deconsolidation and changes of equity interest in the JV company of \$3.5 million, other payable on equity investee of \$48.2 million, and \$23.8 million increase in accounts payable primarily due to timing of payment, partially offset by \$30.1 million increase in accounts receivable due to timing of billings and collection of payments, \$57.4 million increase in inventories, \$9.4 million increase in other current and long-term assets primarily due to decrease in advance payments to suppliers, and \$1.7 million decrease in income taxes payable.

Net cash provided by operating activities of \$128.7 million for fiscal year 2021 resulted primarily from net income of \$56.3 million, non-cash charges of \$70.0 million and net change in assets and liabilities providing net cash of \$2.5 million. The non-cash charges of \$70.0 million included depreciation and amortization expenses of \$52.7 million, share-based compensation expense of \$15.3 million, loss on disposal of property and equipment of \$0.4 million, and net deferred income taxes of \$1.6 million. The net change in assets and liabilities providing net cash of \$2.5 million was primarily due to \$48.5 million increase in accrued and other liabilities and \$1.7 million increase in income taxes payable, partially offset by \$22.5 million increase in accounts receivable due to timing of billings and collection of payments, \$18.8 million increase in inventories, \$5.8 million increase in other current and long-term assets primarily due to decrease in advance payments to suppliers, and \$0.5 million decrease in accounts payable primarily due to timing of payments.

Cash flows from investing activities

Net cash used in investing activities of \$109.6 million for the fiscal year 2023 was primarily attributable to \$110.4 million purchases of property and equipment, partially offset by \$0.6 million government grant related to equipment and \$0.2 million in proceeds from sale of property and equipment.

Net cash used in investing activities of \$130.8 million for the fiscal year 2022 was primarily attributable to \$138.0 million purchases of property and equipment, and \$20.7 million deconsolidation of cash and cash equivalents of the JV Company, partially offset by \$1.4 million government grant related to equipment in the JV Company, \$26.3 million proceeds from sale of equity interest in the JV Company and \$0.1 million proceeds from sale of property and equipment.

Net cash used in investing activities of \$72.5 million for the fiscal year 2021 was primarily attributable to \$72.7 million purchases of property and equipment, which was partially offset by \$0.1 million government grant related to equipment in the JV Company.

Cash flows from financing activities

Net cash used in financing activities of \$29.6 million for the fiscal year 2023 was primarily attributable to \$6.4 million in common shares acquired to settle withholding tax related to vesting of restricted stock units, \$0.8 million in payments of capital lease obligations, \$26.6 million in repayments of borrowings, and \$13.4 million of payments for repurchase of common shares, partially offset by \$8.6 million of proceeds from borrowings and \$9.0 million of proceeds from exercises of share options and issuance of shares under the ESPP.

Net cash used in financing activities of \$21.9 million for the fiscal year 2022 was primarily attributable to \$64.3 million of proceeds from borrowings and \$6.1 million of proceeds from exercises of share options and issuance of shares under the ESPP, partially offset by \$8.6 million in common shares acquired to settle withholding tax related to vesting of restricted stock units, \$4.2 million in payments of capital lease obligations, and \$35.7 million in repayments of borrowings.

Net cash used in financing activities of \$19.0 million for the fiscal year 2021 was primarily attributable to \$6.9 million in common shares acquired to settle withholding tax related to vesting of restricted stock units, \$16.5 million in payments of capital lease obligations, and \$66.6 million in repayments of borrowings, partially offset by \$65.9 million of proceeds from borrowings and \$5.1 million of proceeds from exercises of share options and issuance of shares under the ESPP.

Contractual Obligations

Our contractual obligations as of June 30, 2023 are as follows:

	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
(in thousands)					
Recorded liabilities:					
Bank borrowings	\$ 49,887	\$ 11,472	\$ 23,535	\$ 14,880	\$ —
Finance leases	4,768	1,144	2,288	1,336	—
Operating leases	29,149	5,452	8,430	6,964	8,303
	<u>\$ 83,804</u>	<u>\$ 18,068</u>	<u>\$ 34,253</u>	<u>\$ 23,180</u>	<u>\$ 8,303</u>
Other:					
Capital commitments with respect to property and equipment	\$ 9,711	\$ 9,711	\$ —	\$ —	\$ —
Purchase commitments with respect to inventories and others	127,490	127,490	—	—	—
	<u>\$ 137,201</u>	<u>\$ 137,201</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Total contractual obligations	<u>\$ 221,005</u>	<u>\$ 155,269</u>	<u>\$ 34,253</u>	<u>\$ 23,180</u>	<u>\$ 8,303</u>

As of June 30, 2023, we had recorded liabilities of \$2.5 million for uncertain tax positions and \$0.3 million for potential interest and penalties, which are not included in the above table because we are unable to reliably estimate the amount of payments in individual years that would be made in connection with these uncertain tax positions.

Commitments

See Note 15 of the Notes to the Consolidated Financial Statements contained in this Annual Report on Form 10-K for a description of commitments.

Off-Balance Sheet Arrangements

As of June 30, 2023, we had no off-balance sheet arrangements.

Critical Accounting Policies and Estimates

The preparation of our consolidated financial statements requires us 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, our consolidated financial statements will be affected. On an ongoing basis, we evaluate the estimates, judgments and assumptions including those related to stock rotation returns, price adjustments, allowance for doubtful accounts, valuation of inventories, warranty accrual, income taxes, leases, equity method investment, share-based compensation, recoverability of and useful lives for property, plant and equipment and intangible assets.

Revenue recognition

We determine 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. We recognize revenue at a point in time when product is shipped to the customer, net of estimated stock rotation returns and price adjustments to certain distributors. We present revenue net of sales taxes and any similar assessments. Our standard payment terms range from 30 to 60 days.

We sell our products primarily to distributors, who in turn sell our products globally to various end customers. Our revenue is net of the effect of the variable consideration relating to estimated stock rotation returns and price adjustments that we expect to provide to certain distributors. Stock rotation returns are governed by contract and are limited to a specified percentage of the monetary value of the products purchased by distributors during a specified period. We estimate provision for stock rotation returns based on historical returns and individual distributor agreements. We also provide special pricing to certain distributors primarily based on volume, to encourage resale of our products. We estimate the expected price adjustments at the time the revenue is recognized based on distributor inventory levels, pre-approved future distributor selling prices, distributor margins and demand for our products. If actual stock rotation returns or price adjustments differ from our estimates, adjustments may be recorded in the period when such actual information is known. Allowance for price adjustments is recorded against accounts receivable and provision for stock rotation is recorded in accrued liabilities on the consolidated balance sheets.

Our performance obligations relate to contracts with a duration of less than one year. We elected to apply the practical expedient provided in ASC 606, "Revenue from Contracts with Customers". Therefore, we are not 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.

We recognize 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, we recognize commissions as expense when incurred, as the amortization period of the commission asset we 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.

License and Development Revenue Recognition

In February 2023, we entered into a license agreement with a customer to license our proprietary SiC technology and to provide 24-months of engineering and development services for a total fee of \$45 million, consisting of an upfront fee of \$18 million and \$6.8 million paid to us in March 2023 and July 2023, respectively, with the remaining amount to be paid upon the achievement of specified engineering services and product milestones. The license and development fee is determined to be one performance obligation and is recognized over the 24 months when we perform the engineering and development services. We use the input method to measure progression, representing a faithful depiction of the transfer of services. During the fiscal year ended June 30, 2023, we recorded \$9.9 million of license and development revenue. The amount of contract liability is recorded as deferred revenue on the consolidated balance sheets. In addition, we also entered an accompanying supply agreement to provide limited wafer supply to the customer.

Equity method investment

We use the equity method of accounting when we have the ability to exercise significant influence, but not control, as determined in accordance with general accepted accounting principles, over the operating and financial policies of the investee. Effective December 2, 2021, we reduced our equity interest in the JV Company, which resulted in deconsolidation of our investment in the JV Company. As a result, beginning December 2, 2021, we record our investment under equity method of accounting. Due to difficulties in obtaining accurate financial information from the JV Company in a timely manner, we record our share of earnings or losses of such affiliate on a one quarter lag. Therefore, our share of losses of the

JV Company for the period from December 2, 2021 to March 31, 2022 was recorded in our Consolidated Statement of Operations for the fiscal year ended June 30, 2022. And our share of losses of the JV Company for the period of April 1, 2022 to March 31, 2023 was recorded in our Consolidated Statement of Operations for the fiscal year ended June 30, 2023. We recognize and disclose intervening events at the JV Company in the lag period that could materially affect our consolidated financial statements.

We record our interest in the net earnings of the equity method investee, along with adjustments for unrealized profits or losses on intra-entity transactions and amortization of basis differences, within earnings or loss from equity interests in the Consolidated Statements of Operations. Profits or losses related to intra-entity sales with the equity method investee are eliminated until realized by the investor and investee. Basis differences represent differences between the cost of the investment and the underlying equity in net assets of the investment and are generally amortized over the lives of the related assets that gave rise to them. Equity method goodwill is not amortized or tested for impairment; instead the equity method investment is tested for impairment. We review for impairment whenever factors indicate that the carrying amount of the investment might not be recoverable. In such a case, the decrease in value is recognized in the period the impairment occurs in the Consolidated Statements of Operations.

Valuation of inventories

We carry inventories at the lower of cost (determined on a first-in, first-out basis) or net realizable value. Cost primarily consists of semiconductor wafers and raw materials, labor, depreciation expenses and other manufacturing expenses and overhead, and packaging and testing fees paid to third parties if subcontractors are used. Valuation of inventories is based on our periodic review of inventory quantities on hand as compared with our sales forecasts, historical usage, aging of inventories, production yield levels and current product selling prices. If actual market conditions are less favorable than those forecasted by us, additional future inventory write-downs may be required that could adversely affect our operating results. Adjustments to inventory, once established are not reversed until the related inventory has been sold or scrapped. If actual market conditions are more favorable than expected and the products that have previously been written down are sold, our gross margin would be favorably impacted.

Accounting for income taxes

We are subject to income taxes in a number of jurisdictions. We must make certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments occur in the calculation of tax credits, benefits and deductions, and in the calculation of certain tax assets and liabilities which arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes, as well as interest and penalties related to uncertain tax positions. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. We establish accruals for certain tax contingencies based on estimates of whether additional taxes may be due. While the final tax outcome of these matters may differ from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. As a result, significant changes to these estimates may result in an increase or decrease to our tax provision in a subsequent period.

Significant management judgment is also required in determining whether deferred tax assets will be realized in full or in part. When it is more likely than not that all or some portion of specific deferred tax assets such as net operating losses or foreign tax credit carryforwards will not be realized, a valuation allowance must be established for the amount of the deferred tax assets that cannot be realized. We consider all available positive and negative evidence on a jurisdiction-by-jurisdiction basis when assessing whether it is more likely than not that deferred tax assets are recoverable. We consider evidence such as our past operating results, the existence of cumulative losses in recent years and our forecast of future taxable income. We will maintain a partial valuation allowance equal to the state research and development credit carryforwards until sufficient positive evidence exists to support reversal of the valuation allowance.

We have not provided for withholding taxes on the undistributed earnings of our foreign subsidiaries because we intend to reinvest such earnings indefinitely. However, we have recorded a deferred tax liability of \$27.9 million at June 30, 2023 related to our investment in the JV Company. As of June 30, 2023, the cumulative amount of undistributed earnings of our foreign subsidiaries considered permanently reinvested was \$374 million. The determination of the unrecognized deferred tax liability on these earnings is not practicable. Should we decide to remit this income to the Bermuda parent company in a future period, our provision for income taxes may increase materially in that period.

The Financial Accounting Standards Board ("FASB") has issued guidance which clarifies the accounting for income taxes by prescribing a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical

merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely to be realized upon ultimate settlement. The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax law and regulations in a multitude of jurisdictions. Although the guidance on the accounting for uncertainty in income taxes prescribes the use of a recognition and measurement model, the determination of whether an uncertain tax position has met those thresholds will continue to require significant judgment by management. If the ultimate resolution of tax uncertainties is different from what is currently estimated, a material impact on income tax expense could result.

Our provision for income taxes is subject to volatility and could be adversely impacted by changes in earnings or tax laws and regulations in various jurisdictions. We are subject to the continuous examination of our income tax returns by the Internal Revenue Service and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. There can be no assurance that the outcomes from these continuous examinations will not have an adverse effect on our operating results and financial condition. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact the provision for income taxes in the period in which such determination is made. The provision for income taxes includes the impact of changes to reserves, as well as the related net interest and penalties.

Share-based compensation expense

We maintain an equity-settled, share-based compensation plan to grant restricted share units and stock options. We recognize 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 our 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. Share-based compensation expense is significant to the consolidated financial statements and is calculated using our best estimates, which involve inherent uncertainties and the application of management's judgment. The Black-Scholes option valuation model requires the input of subjective assumptions, including the expected term and stock price volatility. In addition, judgment is also required in estimating the number of stock-based awards that are expected to be forfeited. Forfeitures are estimated based on historical experience at the time of grant. Changes in estimated forfeitures are recognized in the period of change and impact the amount of stock compensation expenses to be recognized in future periods, which could be material if actual results differ significantly from estimates.

Recently Issued Accounting Pronouncements

See Note 1 of the Notes to the consolidated financial statements under Item 15 in this Annual Report on Form 10-K for a full description of recent accounting pronouncements, including the expected dates of adoption and estimated effects on results of operations and financial condition.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Foreign currency risk

We and our principal subsidiaries use U.S. dollars as our functional currency because most of the transactions are conducted and settled in U.S. dollars. All of our revenue and a significant portion of our operating expenses are denominated in U.S. dollars. The functional currency for our in-house packaging and testing facilities in China is U.S. dollars and a significant portion of our capital expenditures are denominated in U.S. dollars. However, foreign currencies are required to fund our overseas operations, primarily in Taiwan and China. Operating expenses of overseas operations are denominated in their respective local currencies. In order to minimize exposure to foreign currencies, we maintained cash and cash equivalent balances in foreign currencies, including Chinese Yuan (“RMB”) as operating funds for our foreign operating expenses. For our subsidiaries which use the local currency as the functional currency, the results and financial position are translated into U.S. dollar using exchange rates at balance sheet dates for assets and liabilities and using average exchange rates for income and expenses items. The resulting translation differences are presented as a separate component of accumulated other comprehensive income (loss) and noncontrolling interest in the consolidated statements of equity. Our management believes that our exposure to foreign currency translation risk is not significant based on a 10% sensitivity analysis in foreign currencies due to the fact that the net assets denominated in foreign currencies pertaining to foreign operations, principally in Taiwan and China, are not significant to our consolidated net assets.

Interest rate risk

Our interest-bearing assets comprise mainly interest-bearing short-term bank balances. We manage our interest rate risk by placing such balances in instruments with various short-term maturities. Borrowings expose us to interest rate risk. Borrowings are drawn down after due consideration of market conditions and expectation of future interest rate movements. As of June 30, 2023, we had \$49.8 million outstanding under our loan and \$4.1 million outstanding under our financing leases, which were subject to fluctuations in interest rates. For the year ended June 30, 2023, a hypothetical 10% increase in the interest rate could result in \$0.3 million additional annual interest expense. The hypothetical assumptions made above will be different from what actually occurs in the future. Furthermore, the computations do not anticipate actions that may be taken by our management should the hypothetical market changes actually occur over time. As a result, actual impacts on our results of operations in the future will differ from those quantified above.

Commodity Price Risk

We are subject to risk from fluctuating market prices of certain commodity raw materials, particularly gold, that are used in our manufacturing process and incorporated into our end products. Supplies for such commodities may from time-to-time become restricted, or general market factors and conditions may affect the pricing of such commodities. Over the past few years, the price of gold increased significantly and certain of our supply chain partners assess surcharges to compensate for the rising commodity prices. We have been converting some of our products to use copper wires instead of gold wires. Our results of operations may be materially and adversely affected if we have difficulty obtaining these raw materials, the quality of available raw materials deteriorates, or there are significant price changes for these raw materials. For periods in which the prices of these raw materials are rising, we may be unable to pass on the increased cost to our customers which would result in decreased margins for the products in which they are used and could have a material adverse effect on our net earnings. We also may need to record losses for adverse purchase commitments for these materials in periods of declining prices. We do not enter into formal hedging arrangements to mitigate against commodity risk. We estimate that a 10% increase or decrease in the costs of raw materials subject to commodity price risk, such as gold, would decrease or increase our current year's net earnings by \$0.6 million, assuming that such changes in our costs have no impact on the selling prices of our products and that we have no pending commitments to purchase metals at fixed prices.

Item 8. Financial Statements and Supplementary Data

See Part IV, Item 15 “Exhibits and Financial Statement Schedules” for our consolidated financial statements and the notes and schedules thereto filed as part of this annual report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures**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 Company’s Chief Executive Officer and Chief Financial Officer have concluded that such disclosure controls and procedures were not effective as of June 30, 2023, as a result of a material weakness in our internal control over financial reporting as described in more detail below.

The material weakness described herein did not result in any identified misstatements to the financial statements, and there were no changes to our historical financial statements. Notwithstanding such material weakness, our financial statements and other financial information included in this Annual Report on Form 10-K fairly present in all material respects our financial condition, results of operations, and cash flows for the periods presented in conformity with accounting principles generally accepted in the United States.

Management’s Annual Report on Internal Control over Financial Reporting

Our management, including our Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external purposes in accordance with generally accepted accounting principles, and includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are made only in accordance with authorizations of our management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Our management conducted an assessment of the effectiveness of our internal control over financial reporting based on the criteria set forth in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), as amended from time to time. Based on the assessment, our management concluded that the Company’s internal control over financial reporting was not effective as of June 30, 2023 as a result of the material weakness as described below. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

In connection with management’s evaluation of the effectiveness of our internal control over financial reporting described above, management identified a material weakness in our internal control over financial reporting due to the fact that we did not: (1) design and maintain effective information technology general controls in the areas of user access, and segregation of duties for one of the information technology systems that supports the Company’s financial reporting over inventory (work in process and finished goods) in costing; and (ii) identify and test controls to ensure the reliability of the costing of inventory (work in process and finished goods).

The effectiveness of the Company’s internal control over financial reporting as of June 30, 2023 has been audited by Baker Tilly US, LLP, an independent registered public accounting firm, as stated in their report, included on page [68](#).

REMEDIATION PLAN

Our management, with oversight from our Audit Committee, is in the process of developing and implementing remediation plans in response to the identified material weakness described above. Specifically, we are designing and

implementing additional measures to further improve information technology general controls in the areas of user access in order to ensure segregation of duties for our system that supports financial reporting over inventory (work in process and finished goods) in costing, and to identify and test control to ensure reliability of costing of inventory (work in process and finished goods). The material weakness will not be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

The material weakness will not be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

We believe the measures described above will remediate the control deficiencies we have identified and strengthen our internal control over financial reporting. We are committed to continuing to improve our internal control processes and will continue to review, optimize and enhance our financial reporting controls and procedures.

The process of designing and implementing an effective financial reporting system is a continuous effort that requires us to anticipate and react to changes in our business and the economic and regulatory environments and to expend significant resources to maintain a financial reporting system that is adequate to satisfy our reporting obligations. As we continue to evaluate and take actions to improve our internal control over financial reporting, we may determine to take additional actions to address control deficiencies or determine to modify certain of the remediation measures described above.

Limitation on the 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.

Changes in Internal Control Over Financial Reporting

As required by Rule 13a-15(d) under the Exchange Act, our management, including our Chief Executive Officer and Chief Financial Officer, has evaluated our internal control over financial reporting to determine whether any changes occurred during the fourth fiscal quarter covered by this Form 10-K that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, there has been no such change during the fourth fiscal quarter of 2023 other than the material weakness and related remediation measures as described above.

Item 9B. Other Information

Trading Plans or Rule 10b5-1 Trading Plans

The table below summarizes the material terms of trading arrangements adopted by any of our executive officers or directors during the June 2023 quarter. All of the trading arrangements listed below are intended to satisfy the affirmative defense of Rule 10b5-1(c).

Name	Title	Date of Adoption	End Date ¹	Aggregate number of shares common shares to be sold pursuant to 10b5-1 trading agreements
Mike Chang	Executive Chairman and Director	May 26, 2023	March 15, 2024	180,000
Yifan Liang	Chief Financial Officer	May 24, 2023	August 15, 2024	80,000

¹ Each plan will expire on the earlier of the end date and the completion of all transactions under the trading arrangement.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections.

Not Applicable.

PART III

Certain information required by Part III is omitted from this Annual Report on Form 10-K because we intend to file our definitive proxy statement for our next annual general meeting of shareholders, pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended (the “2023 Proxy Statement”), no later than 120 days after the end of fiscal year 2023, and certain information to be included in the 2023 Proxy Statement is incorporated herein by reference.

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item concerning our directors, executive officers, Section 16 compliance and corporate governance matters is contained in part under the caption “Business - Executive Officers” in Part I of this report, and the remainder is incorporated by reference to the information set forth in the sections titled “Election of Directors” and “Delinquent Section 16(a) Reports” in the 2023 Proxy Statement.

Item 11. Executive Compensation

The information required by this item regarding executive compensation is incorporated by reference from the information set forth under the captions “Compensation of Non-Employee Directors” and “Executive Compensation,” in the 2023 Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item regarding security ownership of certain beneficial owners and management is incorporated by reference to the information set forth in the section titled “Security Ownership of Certain Beneficial Owners and Management” and “Equity Compensation Plan Information” in the 2023 Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item regarding related party transactions and director independence is incorporated by reference from the information set forth under the captions “Board of Directors and Committees of the Board” and “Related Party Transactions” in the 2023 Proxy Statement.

Item 14. Principal Accountant Fees and Services

The information required by this item regarding principal accountant fees and services is incorporated by reference from the information set forth under the caption “Principal Accounting Fees and Services” in the 2023 Proxy Statement.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as part of this annual report:

(1) Consolidated Financial Statements. The index to the consolidated financial statements is below.

<u>Item</u>	<u>Page</u>
Report of Independent Registered Public Accounting Firm (Baker Tilly US, LLP - PCAOB Firm ID No.23)	68
Report of Independent Registered Public Accounting Firm (BDO USA, LLP - PCAOB Firm ID No. 243)	71
Consolidated Balance Sheets	72
Consolidated Statements of Operations	74
Consolidated Statements of Comprehensive Income (Loss)	73
Consolidated Statements of Equity	75
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(2) Financial Statement Schedules.

Schedule II - Valuation and Qualifying accounts	112
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(b) Exhibits

The exhibits listed on the accompanying Index to Exhibits in Item 15(b) below are filed as part of, or hereby incorporated by reference into, this Annual Report on Form 10-K.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Alpha and Omega Semiconductor Limited

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheet of Alpha and Omega Semiconductor Limited (the "Company") as of June 30, 2023, the related consolidated statements of operations, comprehensive income, equity, and cash flows, for the year then ended, and the related notes and schedule (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of June 30, 2023, based on criteria established in Internal Control – Integrated Framework: (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2023, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company did not maintain, in all material respects, effective internal control over financial reporting as of June 30, 2023, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO because a material weakness in internal control over financial reporting existed as of that date as the Company did not: (i) design and maintain effective information technology general controls in the areas of user access, and segregation of duties for one of the information technology systems that supports the Company's financial reporting over inventory (work in process and finished goods) in costing; and (ii) identify and test controls to ensure the reliability of the costing of inventory (work in process and finished goods).

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. The material weakness referred to above is described in Management's Annual Report on Internal Control Over Financial Reporting included in Item 9A of this Annual Report on Form 10-K. We considered this material weakness in determining the nature, timing, and extent of audit tests applied in our audit of the 2023 consolidated financial statements, and our opinion regarding the effectiveness of the Company's internal control over financial reporting does not affect our opinion on those consolidated financial statements.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control over Financial Reporting included in Item 9A of this Annual Report on Form 10-K. Our responsibility is to express an opinion on the Company's consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud and whether effective internal control over financial reporting was maintained in all material respects.

Our audit of the financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and

dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Excess and Obsolete Inventory Reserve

The Company's inventory, net totaled \$183 million as of June 30, 2023, representing approximately 15% of total assets. As described in Notes 1 and 6 to the consolidated financial statements, the Company assesses the valuation of its inventory on a periodic basis and provides an allowance based on several factors including inventory quantities on hand as compared with its sales forecasts, historical usage, aging of inventories, production yield levels and current product selling prices.

We identified the provision for excess and obsolete inventory as a critical audit matter because the determination of excess and obsolete inventory reserves is judgmental and considers several factors that are affected by market and economic conditions, such as company forecasts, dynamic pricing environments, and industry supply and demand.

How the critical audit matter was addressed in the audit

Our audit procedures related to management's estimates used in the valuation of inventory included the following, among others:

- We evaluated and tested the design and operating effectiveness of the Company's internal controls over the costing of inventory, the calculation of lower of cost or net realizable value reserves including related estimated costs and selling prices, and the determination of demand forecasts and related application against on hand inventory.
- We reviewed the reasonableness of the Company's methodology for estimating the valuation of inventories by evaluating factors including excess units on hand based on ending inventory quantities compared to forecasted shipment quantities.
- We tested the significant assumptions, including product demand forecasts, and the underlying data used in management's inventory valuation assessment.
- We evaluated management's ability to accurately estimate forecasted demand by comparing estimates made in prior periods to the historical actual results for those same periods.

Allowance for Price Adjustments

The Company recorded allowance for price adjustments of \$40 million as of June 30, 2023. As described in Notes 1 and 6, the Company provides special pricing to certain distributors, primarily based on volume, to encourage resale of the Company's products and records a reduction of revenue and a corresponding allowance for price adjustments against accounts receivable on the consolidated balance sheet.

Estimating the allowance for price adjustments requires management to make certain assumptions including historical customer ship and debit credit rates and credit lag times on such revenues. These assumptions could be affected by current and future economic and market conditions. We identified the allowance for price adjustments as a critical audit matter because auditing management's estimate of the allowance for price adjustments was complex and judgmental due to the significant estimation required by management.

How the critical audit matter was addressed in the audit

Our audit procedures included the following, among others:

- We evaluated and tested the design and operating effectiveness of the Company's internal controls over the measurement of the allowance for price adjustments, including testing controls over management's review of the allowance calculation and the underlying assumptions used to develop the estimate.
- We confirmed the quantity of select distributor inventories.
- We vouched revenues and allowance for price adjustments to supporting documents.
- We evaluated the reasonableness of management's assumptions by comparing the significant assumptions (ship and debit claims percentage history and the relevant cycle time period between when sales are made by distributors to their end customers and when ship and debit credit memos are issued by the Company to distributors) used to historical customer trends, including testing the completeness and accuracy of the underlying data.

/s/ Baker Tilly US, LLP

We have served as the Company's auditor since 2022.

Mountain View, California

August 29, 2023

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and Board of Directors
Alpha & Omega Semiconductor Limited
Sunnyvale, California

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheet of Alpha & Omega Semiconductor Limited (the “Company”) as of June 30, 2022, the related consolidated statements of operations, comprehensive income (loss), equity, and cash flows for each of the two years in the period ended June 30, 2022, and the related notes and schedule (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at June 30, 2022, and the results of its operations and its cash flows for each of the two years in the period ended June 30, 2022, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ BDO USA, LLP

We have served as the Company's auditor from 2018 to 2022.

San Jose, California

September 19, 2022

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

	June 30,	
	2023	2022
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 195,188	\$ 314,352
Restricted cash	415	299
Accounts receivable, net	22,420	65,681
Inventories	183,247	158,040
Other current assets	22,666	11,220
Total current assets	<u>423,936</u>	<u>549,592</u>
Property, plant and equipment, net	357,831	318,666
Operating lease right-of-use assets, net	24,349	23,674
Intangible assets, net	6,765	10,050
Equity method investment	366,617	378,378
Deferred income tax assets	536	592
Other long-term assets	19,703	17,677
Total assets	<u>\$ 1,199,737</u>	<u>\$ 1,298,629</u>
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 50,775	\$ 87,377
Accrued liabilities	79,533	116,893
Payable related to equity investee, net	11,950	28,989
Income taxes payable	5,546	4,248
Short-term debt	11,434	25,563
Deferred revenue	8,073	—
Finance lease liabilities	867	802
Operating lease liabilities	4,383	3,850
Total current liabilities	<u>172,561</u>	<u>267,722</u>
Long-term debt	38,360	42,486
Income taxes payable - long-term	2,817	2,158
Deferred income tax liabilities	27,283	28,757
Finance lease liabilities - long-term	3,216	3,932
Operating lease liabilities - long-term	20,544	20,878
Other long-term liabilities	51,037	78,603
Total liabilities	<u>315,818</u>	<u>444,536</u>
Commitments and contingencies (Note 15)		
Equity:		
Preferred shares, par value \$0.002 per share:		
Authorized: 10,000 shares; issued and outstanding: none at June 30, 2023 and 2022	—	—
Common shares, par value \$0.002 per share:		
Authorized: 100,000 shares; issued and outstanding: 34,811 shares and 27,654 shares, respectively at June 30, 2023 and 33,988 shares and 27,371 shares, respectively at June 30, 2022	70	68
Treasury shares at cost; 7,157 shares at June 30, 2023 and 6,617 shares at June 30, 2022	(79,365)	(66,000)
Additional paid-in capital	329,034	288,951
Accumulated other comprehensive income (loss)	(8,111)	1,080
Retained earnings	642,291	629,994
Total Alpha and Omega Semiconductor Limited shareholders' equity	<u>883,919</u>	<u>854,093</u>
Total liabilities and equity	<u>\$ 1,199,737</u>	<u>\$ 1,298,629</u>

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

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

	Year ended June 30,		
	2023	2022	2021
Net income including noncontrolling interest	\$ 12,364	\$ 453,183	\$ 56,289
Other comprehensive income, net of tax			
Foreign currency translation adjustment	(9,191)	1,307	14,190
Cumulative translation adjustment removal due to deconsolidation of the JV Company	—	(3,642)	—
Comprehensive income	3,173	450,848	70,479
Less: Noncontrolling interest	—	(1,080)	4,921
Comprehensive income attributable to Alpha and Omega Semiconductor Limited	\$ 3,173	\$ 451,928	\$ 65,558

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

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

	Year Ended June 30,		
	2023	2022	2021
Revenue	\$ 691,321	\$ 777,552	\$ 656,902
Cost of goods sold	491,785	508,996	452,359
Gross profit	<u>199,536</u>	<u>268,556</u>	<u>204,543</u>
Operating expenses:			
Research and development	88,146	71,259	62,953
Selling, general and administrative	88,861	95,259	77,514
Total operating expenses	<u>177,007</u>	<u>166,518</u>	<u>140,467</u>
Operating income	22,529	102,038	64,076
Other income (loss), net	(1,730)	999	2,456
Interest expense, net	(1,087)	(3,920)	(6,308)
Gain on deconsolidation of the JV Company	—	399,093	—
Loss on changes of equity interest in the JV Company, net	—	(3,140)	—
Net income before income taxes	19,712	495,070	60,224
Income tax expense	5,937	39,258	3,935
Net income before loss from equity method investment	13,775	455,812	56,289
Equity method investment loss from equity investee	(1,411)	(2,629)	—
Net income	12,364	453,183	56,289
Net income (loss) attributable to noncontrolling interest	—	20	(1,827)
Net income attributable to Alpha and Omega Semiconductor Limited	<u>\$ 12,364</u>	<u>\$ 453,163</u>	<u>\$ 58,116</u>
Net income per common share attributable to Alpha and Omega Semiconductor Limited			
Basic	\$ 0.45	\$ 16.93	\$ 2.25
Diluted	\$ 0.42	\$ 16.07	\$ 2.13
Weighted average number of common share attributable to Alpha and Omega Semiconductor Limited used to compute net income per share:			
Basic	27,552	26,764	25,786
Diluted	29,528	28,203	27,272

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

ALPHA AND OMEGA SEMICONDUCTOR LIMITED
CONSOLIDATED STATEMENTS OF EQUITY
(in thousands)

	Preferred Shares		Common Shares		Treasury Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (loss)	Retained Earnings	Total AOS Shareholders' Equity	Noncontrolling Interest	Total Equity
	Shares	Amount	Shares	Amount	Shares	Amount						
Balance, June 30, 2020	—	\$ —	31,944	\$ 64	(6,639)	\$ (66,184)	\$ 246,103	\$ (5,127)	\$ 118,833	\$ 293,689	\$ 138,199	\$ 431,888
Exercise of common stock options and release of RSUs	—	—	857	1	—	—	1,698	—	—	1,699	—	1,699
Reissuance of treasury stock upon exercise of common stock options and release of RSUs	—	—	—	—	14	120	—	—	(54)	66	—	66
Withholding tax on restricted stock units	—	—	(225)	—	—	—	(6,924)	—	—	(6,924)	—	(6,924)
Issuance of shares under Employee Stock Purchase Plan	—	—	399	1	—	—	3,326	—	—	3,327	—	3,327
Share-based compensation expense	—	—	—	—	—	—	12,190	—	—	12,190	—	12,190
Restricted stock units settlement in connection with service	—	—	—	—	—	—	3,600	—	—	3,600	—	3,600
Net income (loss) including noncontrolling interest	—	—	—	—	—	—	—	—	58,116	58,116	(1,827)	56,289
Foreign currency translation adjustment	—	—	—	—	—	—	—	7,442	—	7,442	6,748	14,190
Balance, June 30, 2021	—	—	32,975	66	(6,625)	(66,064)	259,993	2,315	176,895	373,205	143,120	516,325
Exercise of common stock options and release of RSUs	—	—	652	1	—	—	897	—	—	898	—	898
Reissuance of treasury stock upon exercise of common stock options and release of RSUs	—	—	—	—	8	64	—	—	(64)	—	—	—
Withholding tax on restricted stock units	—	—	(183)	—	—	—	(8,641)	—	—	(8,641)	—	(8,641)
Issuance of shares under Employee Stock Purchase Plan	—	—	544	1	—	—	5,244	—	—	5,245	—	5,245
Share-based compensation expense	—	—	—	—	—	—	31,058	—	—	31,058	—	31,058
Restricted stock units settlement in connection with service	—	—	—	—	—	—	400	—	—	400	—	400
Net income (loss) including noncontrolling interest through December 1, 2021	—	—	—	—	—	—	—	—	453,163	453,163	20	453,183
Foreign currency translation adjustment	—	—	—	—	—	—	—	558	—	558	749	1,307
Deconsolidation of noncontrolling interest	—	—	—	—	—	—	—	(1,793)	—	(1,793)	(143,889)	(145,682)
Balance, June 30, 2022	—	—	33,988	68	(6,617)	(66,000)	288,951	1,080	629,994	854,093	—	854,093
Exercise of common stock options and release of RSUs	—	—	715	1	—	—	550	—	—	551	—	551
Reissuance of treasury stock upon exercise of common stock options and release of RSUs	—	—	—	—	8	67	—	—	(67)	—	—	—
Withholding tax on restricted stock units	—	—	(242)	—	—	—	(6,381)	—	—	(6,381)	—	(6,381)
Issuance of shares under Employee Stock Purchase Plan	—	—	350	1	—	—	8,426	—	—	8,427	—	8,427
Repurchase of common shares under share repurchase program	—	—	—	—	(548)	(13,432)	—	—	—	(13,432)	—	(13,432)
Share-based compensation expense	—	—	—	—	—	—	37,488	—	—	37,488	—	37,488
Net income	—	—	—	—	—	—	—	—	12,364	12,364	—	12,364
Foreign currency translation adjustment	—	—	—	—	—	—	—	(9,191)	—	(9,191)	—	(9,191)
Balance, June 30, 2023	—	\$ —	34,811	\$ 70	(7,157)	\$ (79,365)	\$ 329,034	\$ (8,111)	\$ 642,291	\$ 883,919	\$ —	\$ 883,919

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

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

	Year Ended June 30,		
	2023	2022	2021
Cash flows from operating activities			
Net income including noncontrolling interest	\$ 12,364	\$ 453,183	\$ 56,289
Adjustments to reconcile net income to net cash provided by operating activities:			
Gain on deconsolidation of the JV Company	—	(399,093)	—
Loss on changes of equity interest in the JV Company, net	—	3,140	—
Deferred income tax on deconsolidation and changes of equity interest in the JV Company	—	29,973	—
Depreciation and amortization	43,207	42,851	52,685
Equity method investment loss from equity investee	1,411	2,629	—
Share-based compensation expense	37,488	31,324	15,324
Deferred income taxes, net	(1,418)	1,592	1,551
Loss on disposal of property and equipment	182	18	426
Changes in assets and liabilities:			
Accounts receivable	43,262	(30,085)	(22,517)
Inventories	(25,207)	(57,416)	(18,765)
Other current and long-term assets	(18,695)	(9,408)	(5,843)
Payable related to equity investee, net	(17,038)	48,192	—
Accounts payable	(19,568)	23,755	(528)
Income taxes payable	1,957	(1,687)	1,660
Income taxes payable on deconsolidation and changes of equity interest in the JV Company	—	3,490	—
Increase in deferred revenue	8,073	—	—
Accrued and other liabilities	(45,545)	76,407	48,462
Net cash provided by operating activities	<u>20,473</u>	<u>218,865</u>	<u>128,744</u>
Cash flows from investing activities			
Proceeds from sale of equity interest in the JV Company	—	26,347	—
Deconsolidation of cash and cash equivalents of the JV Company	—	(20,734)	—
Purchases of property and equipment	(110,428)	(138,014)	(72,700)
Proceeds from sale of property and equipment	167	135	42
Government grant related to equipment	631	1,444	119
Net cash used in investing activities	<u>(109,630)</u>	<u>(130,822)</u>	<u>(72,539)</u>
Cash flows from financing activities			
Withholding tax on restricted stock units	(6,381)	(8,641)	(6,924)
Proceeds from exercise of stock options and ESPP	8,978	6,143	5,092
Payments for repurchase of common shares	(13,432)	—	—
Proceeds from borrowings	8,632	64,276	65,876
Repayments of borrowings	(26,598)	(35,748)	(66,584)
Principal payments on capital leases	(810)	(4,176)	(16,451)
Net cash provided by (used in) financing activities	<u>(29,611)</u>	<u>21,854</u>	<u>(18,991)</u>
Effect of exchange rate changes on cash, cash equivalents and restricted cash	<u>(280)</u>	<u>(59)</u>	<u>4,895</u>
Net increase (decrease) in cash, cash equivalents and restricted cash	<u>(119,048)</u>	<u>109,838</u>	<u>42,109</u>
Cash, cash equivalents and restricted cash at beginning of year	<u>314,651</u>	<u>204,813</u>	<u>162,704</u>
Cash, cash equivalents and restricted cash at end of year	<u>\$ 195,603</u>	<u>\$ 314,651</u>	<u>\$ 204,813</u>

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

	Year Ended June 30,		
	2023	2022	2021
Supplemental disclosures of cash flow information:			
Cash paid for interest	\$ 3,711	\$ 3,404	\$ 5,641
Cash paid for income taxes	\$ 1,537	\$ 5,768	\$ 970
Supplemental disclosures of non-cash investing and financing information:			
Property and equipment purchased but not yet paid	\$ 12,715	\$ 62,165	\$ 20,204
Reissuance of treasury stock	\$ 67	\$ 64	\$ 120
Reconciliation of cash, cash equivalents, and restricted cash:			
Cash and cash equivalents	\$ 195,188	\$ 314,352	\$ 202,412
Restricted cash	415	299	233
Restricted cash - long-term	—	—	2,168
Total cash, cash equivalents, and restricted cash	<u>\$ 195,603</u>	<u>\$ 314,651</u>	<u>\$ 204,813</u>

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

ALPHA AND OMEGA SEMICONDUCTOR LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. The Company and Significant Accounting Policies

The Company

Alpha and Omega Semiconductor Limited and its subsidiaries (the “Company”, “AOS”, “we” or “us”) design, develop and supply a broad range of power semiconductors. The Company's portfolio of products targets high-volume applications, including personal computers, 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 consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries and a subsidiary in which it had a controlling interest until December 1, 2021. As of December 2, 2021, the Company ceased having control over this subsidiary. Therefore, the Company deconsolidated this subsidiary as of that date. Subsequently, the Company has accounted for it using the equity method of accounting. All intercompany account balances and transactions have been eliminated. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

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 in the Liangjiang New Area of Chongqing, China (the “JV Transaction”). As of December 1, 2021, the Company owned 50.9%, and the Chongqing Funds owned 49.1%, of the equity interest in the JV Company. The Joint Venture was accounted under the provisions of the consolidation guidance since the Company had controlling financial interest until December 1, 2021. As of December 2, 2021, the Company ceased having control over the JV Company. Therefore, the Company deconsolidated the JV Company as of that date. Subsequently, the Company has accounted for its investment in the JV Company using the equity method of accounting. As of June 30, 2023, the percentage of outstanding JV equity interest beneficially owned by the Company was reduced to 42.2%. Such reduction reflects (i) the sale by the Company of approximately 2.1% of the outstanding JV equity interest which resulted in the deconsolidation of the JV Company, (ii) additional sale by the Company of approximately 1.1% of outstanding JV equity interest in December 2021, (iii) the adoption of an employee equity incentive plan and the issuance of additional equity interest equivalent to 3.99% of the JV Company to investors in exchange for cash in December 2021, and (iv) issuance of additional equity interest of JV to investors in January 2022.

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

During the first half of calendar year 2022, the Company's operations were negatively impacted by China's zero-Covid policy that resulted in factory shutdowns and supply chain shortages, including the temporary suspension of our factory operations in Shanghai from April to June 2022. In December 2022, the Chinese government issued new guidelines easing some of its strict zero-COVID policies, including the relaxation of testing requirements and travel restrictions. During the three months ended March 31, 2023, China and other parts of the world in which we conduct our business have ended pandemic restriction and have largely returned to normal. In general, our business operations are no longer affected by the COVID-19 pandemic.

Risks and Uncertainties

The Company is subject to certain risks and uncertainties. The Company believes changes in any of the following areas could have a material adverse effect on the Company's future financial position or results of operations or cash flows: the macroeconomic condition and cyclical nature of the semiconductor industry; the timing and success of new product development, including market receptiveness, operation of in-house manufacturing facilities, litigation or claims against the Company based on intellectual property, patent, product regulatory or other factors, competition from other products, general economic conditions, the inability to attract and retain qualified employees, lack of control to the JV Company and ultimately to sustain profitable operations, risks associated with doing business in China, and ability to diversify products and develop digital business; the general state of the U.S., China and world economies; the loss of any of its larger customers; restrictions on the

Company's ability to sell to foreign customers due to trade laws, regulations and requirements; disruptions of the supply chain of components needed for our products; inability to obtain additional financing; inability to meet certain debt covenants; fundamental changes in the technology underlying the Company's products; successful and timely completion of product design efforts; and new product design introductions by competitors. Additional risks and uncertainties that the Company is unaware of, or that the Company currently believes are not material, may also become important factors that adversely affect its business.

The Company's revenue is limited by its ability to utilize wafer production and packaging and testing capacity from its in-house facilities and obtain adequate wafer supplies from third-party foundries. The Company entered into an agreement with the JV Company pursuant to which the JV Company agrees to provide the Company with a guaranteed supply of a fixed number of wafers until December 2023. Currently the Company's main third-party foundry is Shanghai Hua Hong Grace Electronic Company Limited, or HHGrace, located in Shanghai, China. HHGrace has been manufacturing wafers for the Company since 2002. HHGrace manufactured approximately 9.6%, 10.3% and 11.5% of the wafers used in the Company's products for the fiscal years ended June 30, 2023, 2022 and 2021, respectively. Although the Company believes that its volume of production allows the Company to secure favorable pricing and priority in allocation of capacity in its third-party foundries, if the foundries' capacities are constrained due to market demands, HHGrace, together with other foundries from which the Company purchases wafers, may not be willing or able to satisfy all of the Company's manufacturing requirements on a timely basis and/or at favorable prices. In addition, manufacturing facilities' capacity affects the Company's gross margin because the Company has certain fixed costs associated with its Oregon Fab as well as in-house packaging and testing facilities. If the Company fails to utilize its manufacturing facilities' capacity at a desirable level, its financial condition and results of operations will be adversely affected.

Use of Estimates

The preparation of the 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 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.

Foreign Currency Transactions and Translation

Most of the Company's principal subsidiaries use U.S. dollars as their functional currency because their transactions are primarily conducted and settled in U.S. dollars. All of their revenues and a significant portion of their operating expenses are denominated in U.S. dollars. The functional currencies for the Company's in-house packaging and testing facilities in China are U.S. dollars, and a majority of their capital expenditures are denominated in U.S. dollars. Foreign currency transactions are translated into the functional currencies using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses, resulting from the settlement of such transactions and from the re-measurement of monetary assets and liabilities denominated in foreign currencies using exchange rates at balance sheet date and non-monetary assets and liabilities using historical exchange rates, are recognized in the consolidated statements of operations.

For the Company's subsidiaries which use the local currency as their functional currency, their results and financial position are translated into U.S. dollars using exchange rates at balance sheet dates for assets and liabilities and using average exchange rates for income and expenses items. The resulting translation differences are presented as a separate component of accumulated other comprehensive income (loss) and noncontrolling interest in the consolidated statements of equity.

Cash, Cash Equivalents and Restricted Cash

Cash and cash equivalents primarily consist of cash on hand and short-term bank deposits with original maturities of three months or less. Cash equivalents are highly liquid investments with stated maturities of three months or less as of the dates of purchase. The carrying amounts reported for cash and cash equivalents are considered to approximate fair values based upon their short maturities.

Cash and cash equivalents are maintained with reputable major financial institutions. If, due to current economic conditions or other factors, one or more of the financial institutions with which the Company maintains deposits fails, the Company's cash and cash equivalents may be at risk. Deposits with these banks may exceed the amount of insurance provided on such deposits; however, these deposits typically may be redeemed upon demand and, therefore, bear minimal risk.

The Company maintains restricted cash in connection with cash balances temporarily restricted for regular business operations. These balances have been excluded from the Company's cash and cash equivalents balance and are classified as restricted cash in the Company's consolidated balance sheets. As of June 30, 2023 and 2022, the amount of restricted cash was \$0.4 million and \$0.3 million, respectively.

Accounts Receivable, net

The allowance for doubtful accounts is based on assessment of the collectability of accounts receivable from customers. The Company reviews the allowance by considering factors such as historical collection experience, credit quality, age of the accounts receivable balances and current economic conditions that may affect a customer's ability to pay. The Company writes off a receivable and charges against its recorded allowance when it has exhausted its collection efforts without success.

Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value hierarchy is based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value, which are the following:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Fair Value of Financial Instruments

The fair value of cash equivalents is based on observable market prices and have been categorized in Level 1 in the fair value hierarchy. Cash equivalents consist primarily of short-term bank deposits. The carrying values of financial instruments such as cash and cash equivalents, accounts receivable and accounts payable approximate their carrying values due to their short-term maturities. The carrying value of the Company's debt is considered a reasonable estimate of fair value which is estimated by considering the current rates available to the Company for debt of the same remaining maturities, structure and terms of the debts.

Inventories

The Company carries inventories at the lower of cost (determined on a first-in, first-out basis) or net realizable value. Cost includes semiconductor wafer and raw materials, labor, depreciation expenses and other manufacturing expenses and overhead, and packaging and testing fees paid to third parties if subcontractors are used. Valuation of inventories are based on the Company's periodic review of inventory quantities on hand as compared with its sales forecasts, historical usage, aging of inventories, production yield levels and current product selling prices. If actual market conditions are less favorable than those forecasted by management, additional future inventory write-downs may be required that could adversely affect the Company's operating results. Adjustments to inventory once established are not reversed until the related inventory has been sold or scrapped. If actual market conditions are more favorable than expected and the products that have previously been written down are sold, our gross margin would be favorably impacted.

Property, Plant and Equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditures that are directly attributable to the acquisition of the items and the costs incurred to make the assets ready for their intended use.

Depreciation is provided for on a straight-line basis over the estimated useful lives of the related assets as follows:

Building and building improvements	20 years
Manufacturing machinery and equipment	7 to 10 years
Equipment and tooling	3 to 5 years
Computer hardware and software	3 to 5 years
Office furniture and equipment	3 to 5 years
Leasehold improvements	2 to 15 years
Vehicle	5 years

Equipment and construction in progress represent equipment received but the necessary installation has not been fully performed or building construction and leasehold improvements have been started but not yet completed. Equipment and construction in progress are stated at cost and transferred to respective asset class when fully completed and ready for their intended use.

Internal-use software development costs are capitalized to the extent that the costs are directly associated with the development of identifiable and unique software products controlled by the Company that will probably generate economic benefits beyond one year. Costs incurred during the application development stage are required to be capitalized. The application development stage is characterized by software design and configuration activities, coding, testing and installation. Training costs and maintenance are expensed as incurred, while upgrades and enhancements are capitalized if it is probable that such expenditures will result in additional functionality. Costs include employee costs incurred and fees paid to outside consultants for the software development and implementation. Internally developed software is amortized over its estimated useful life of three to five years starting from the date when it is ready for its intended use.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized as selling, general and administrative expenses in the consolidated statements of operations. Costs of maintenance and repairs that do not improve or extend the lives of the respective assets are expensed as incurred.

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 fiscal year ended June 30, 2023, the Company reduced property, plant and equipment by \$0.6 million and operating expenses by \$0.1 million. During the fiscal year ended June 30, 2022, the Company reduced interest expense by \$0.9 million, property, plant and equipment by \$1.4 million, and operating expenses by \$0.2 million. During the fiscal year ended June 30, 2021, the Company reduced interest expenses by \$3.0 million, property, plant and equipment by \$0.1 million, and operating expenses by \$3.7 million.

Long-lived Assets

The Company reviews all long-lived assets whenever events or changes in circumstance indicate that these assets may not be recoverable. When evaluating long-lived assets, if the Company concludes that the estimated undiscounted cash flows attributable to the assets are less than their carrying value, the Company recognizes an impairment loss based on the excess of the carrying amount of the assets over their respective fair values, which could adversely affect our results of operations.

There was no impairment of long-lived assets for fiscal years 2023, 2022 and 2021.

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, as determined by the agreed upon shipping terms, 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 60 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, current expectations, 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 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 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.

License and Development Services Revenue Recognition

In February 2023, the Company entered into a license agreement with a customer to license the Company's proprietary SiC technology and to provide 24-months of engineering and development services for a total fee of \$45 million, consisting of an upfront fee of \$18 million and \$6.8 million paid to the Company in March 2023 and July 2023, respectively, with the remaining amount to be paid upon the achievement of specified engineering services and product milestones. The license and development fee is determined to be one performance obligation and is recognized over the 24 months when the Company performs the engineering and development services. The Company uses the input method to measure progression, representing a faithful depiction of the transfer of services. During the fiscal year ended June 30, 2023, the Company recorded \$9.9 million of license and development revenue. The amount of contract liability is recorded as deferred revenue on the consolidated balance sheets. In addition, the Company also entered an accompanying supply agreement to provide limited wafer supply to the customer.

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 consolidated balance sheets. Finance leases are included in property, plant and equipment, finance lease liabilities and long-term finance leases liabilities on the 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 determined 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 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.

Product Warranty

The Company provides a standard one-year warranty for the products from the date of purchase by the end customers. The Company accrues for estimated warranty costs at the time revenue is recognized. The Company's warranty obligation is affected by product failure rates, labor and material costs for replacing defective parts, related freight costs for failed parts and other quality assurance costs. The Company monitors its product returns for warranty claims and maintains warranty reserves based on historical experiences and anticipated warranty claims known at the time of estimation.

Shipping and Handling Costs

Shipping and handling costs are included in cost of goods sold.

Research and Development

Research and development costs are expensed as incurred.

Provision for Income Taxes

Income tax expense or benefit is based on income or loss before taxes. Deferred tax assets and liabilities are recognized principally for the expected tax consequences of temporary differences between the tax basis of assets and liabilities and their reported amounts.

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

Significant management judgment is also required in determining whether deferred tax assets will be realized in full or in part. When it is more likely than not that all or some portion of specific deferred tax assets such as net operating losses or research and experimentation tax credit carryforwards will not be realized, a valuation allowance must be established for the amount of the deferred tax assets that cannot be realized. The Company considers all available positive and negative evidence on a jurisdiction-by-jurisdiction basis when assessing whether it is more likely than not that deferred tax assets are recoverable. The Company considers evidence such as our past operating results, the existence of cumulative losses in recent years and our forecast of future taxable income. The Company has concluded that it should report a full valuation allowance on its state research and development (R&D) tax credit carryforwards as the Company annually generates more state R&D tax credits than it could use based on its forecasts.

The Financial Accounting Standards Board (FASB), issued guidance which clarifies the accounting for income taxes by prescribing a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely to be realized upon ultimate settlement. Although the guidance on the accounting for uncertainty in income taxes prescribes the use of a recognition and measurement model, the determination of whether an uncertain tax position has met those thresholds will continue to require significant judgment by management. If the ultimate resolution of tax uncertainties is different from what is currently estimated, a material impact on income tax expense could result.

The Company's provision for income taxes is subject to volatility and could be adversely impacted by changes in earnings or tax laws and regulations in various jurisdictions. The Company is subject to the continuous examination of our income tax returns by the Internal Revenue Service and other tax authorities. The Company regularly assesses the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. To the extent that the final tax outcome of these matters is different from the amounts recorded, such differences will impact the provision for income taxes in the period in which such determination is made. The provision for income taxes includes the impact of changes to reserves, as well as the related net interest and penalties.

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 Black-Scholes option valuation model requires the input of subjective assumptions, including the expected term and stock price volatility. In addition, judgment is also required in estimating the number of stock-based awards that are expected to be forfeited. Forfeitures are estimated based on historical experience at the time of grant. Changes in estimated forfeitures are

recognized in the period of change and impact the amount of stock compensation expenses to be recognized in future periods, which could be material if actual results differ significantly from estimates.

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.

Advertising

Advertising expenditures are expensed as incurred. Advertising expense was \$0.5 million, \$0.2 million and \$0.4 million in the fiscal years ended June 30, 2023, 2022, and 2021, respectively.

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.

Recent Accounting Pronouncements

Recently Issued Accounting Standards not yet adopted

In September 2022, the FASB issued ASU No. 2022-04, Liabilities - Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations. This ASU was issued in response to requests from financial statement users for increased transparency surrounding the use of supplier finance programs. The amendments in ASU 2022-04 require that a buyer in a supplier finance program disclose sufficient information about the program to allow a user of financial statements to understand the program's nature, activity during the period, changes from period to period, and potential magnitude. The amendments in this ASU do not affect the recognition, measurement, or financial statement presentation of obligations covered by supplier finance programs. The amendments in this ASU are effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years, except for the amendment on rollforward information, which is effective for fiscal years beginning after December 15, 2023. Early adoption is permitted. The Company is currently evaluating the impact of adopting this guidance.

Recently Adopted Accounting Standards

In November 2021, the FASB issued Accounting Standards Update (ASU) No. 2021-10, Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance. This ASU requires business entities to make annual disclosures about transactions with a government they account for by analogizing to a grant or contribution accounting model under ASC 958-605. The adoption of ASU 2021-10 in the fiscal year ended June 30, 2023 on a prospective basis had no impact on the Company's Consolidated Financial Statements.

In August 2020, the FASB issued 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 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. The adoption of ASU 2020-06 had no impact on the Company's Consolidated Financial Statements.

2. Equity Method Investment in Equity Investee

On December 1, 2021 (the “Effective Date”), Alpha & Omega Semiconductor (Shanghai) Ltd. (“AOS SH”) and Agape Package Manufacturing (Shanghai) Limited (“APM SH”), each a wholly-owned subsidiary of the Company, entered into a share transfer agreement (“STA”) with a third-party investor to sell a portion of the Company’s equity interest in the JV Company which consists of a power semiconductor packaging, testing and 12-inch wafer fabrication facility in Chongqing, China (the “Transaction”). The Transaction closed on December 2, 2021 (the “Closing Date”), which reduced the Company’s equity interest in the JV Company from 50.9% to 48.8%. Also, the Company’s right to designate directors on the board of the JV Company was reduced to three (3) out of seven (7) directors, from four (4) directors prior to the Transaction. As a result of the Transaction and other factors, the Company no longer has a controlling financial interest in the JV Company and has determined that the JV Company was deconsolidated from the Company’s Consolidated Financial Statements effective as of the Closing Date. In connection with the deconsolidation and in accordance with ASC 810, the Company recorded a gain on deconsolidation of \$399.1 million during the fiscal year ended June 30, 2022 in the Condensed Consolidated Statements of Income. The gain on deconsolidation of the JV Company was calculated as follows:

	(in thousands)	
Cash received for sales of shares in the JV Company	\$	16,924
Fair value of retained equity method investment		393,124
Carrying amount of non-controlling interest		143,889
Cumulative translation adjustment removal		1,793
Carrying amount of net assets of the JV Company at December 1, 2021		(156,637)
Gain on deconsolidation of the JV Company	\$	<u>399,093</u>

On December 24, 2021, the Company entered into a share transfer agreement with another third-party investor, pursuant to which the Company sold to this investor 1.1% of outstanding equity interest held by the Company in the JV Company. In addition, the JV Company adopted an employee equity incentive plan and issued an equity interest equivalent to 3.99% of the JV Company in exchange to cash. As a result of these two transactions, the Company owned 45.8% of the equity interest in the JV Company as of December 31, 2021.

On January 26, 2022, the JV Company completed a financing transaction pursuant to a corporate investment agreement (the “Investment Agreement”) between the JV Company and certain third-party investors (the “New Investors”). Under the Investment Agreement, the New Investors purchased newly issued equity interest of the JV Company, representing approximately 7.82% of post-transaction outstanding equity interests of the JV Company, for a total purchase price of RMB 509 million (or approximately USD 80 million based on the currency exchange rate as of January 26, 2022) (the “Investment”). Following the closing of the Investment and as of June 30, 2022, the percentage of outstanding JV equity interest beneficially owned by the Company was reduced to 42.2%.

The net loss associated with these sales of JV Company equity interest held by the Company were recorded in the fiscal year ended June 30, 2022 as follows:

	(in thousands)	
Gain on 1.1% equity interest sold	\$	475
Loss on diluted equity interest from issuance of shares under the employee equity incentive plan		(8,116)
Gain on 7.82% equity interest sol		4,501
Loss on changes on equity interest of the JV Company, net	\$	<u>(3,140)</u>

The Company accounts for its investment in the JV Company as an equity method investment and reports its equity in earnings or loss of the JV Company on a three-month lag due to an inability to timely obtain financial information of the JV Company. During the fiscal year ended June 30, 2023 and 2022, the Company recorded \$1.4 million and \$2.6 million of its equity in loss of the JV Company, respectively, using lag reporting. As of June 30, 2023, the percentage of outstanding JV equity interest beneficially owned by the Company was 42.2%.

Summarized Financial Information

The following table presents summarized financial information for the JV Company as of and for the period from April 1, 2022 through March 31, 2023 and December 2, 2021 through March 31, 2022, using lag reporting (in thousands):

	As of March 31, 2023		As of March 31, 2022	
Current assets	\$	122,324	\$	198,323
Non-current assets	\$	333,165	\$	364,777
Current liabilities	\$	122,340	\$	251,988
Non-current liabilities	\$	36,525	\$	76,207

	For the period of April 1, 2022 to March 31, 2023		For the period of December 2, 2021 to March 31, 2022	
Revenue	\$	178,974	\$	68,972
Gross loss (income)	\$	(4,502)	\$	870
Operating expenses	\$	5,939	\$	2,280
Net loss	\$	4,906	\$	6,197

3. Related Party Transactions

As of June 30, 2023, the Company owned 42.2% equity interest in the JV Company, which, by definition, is a related party to the Company. The JV Company supplies 12-inch wafers and provides assembly and testing services to AOS. AOS previously sold 8-inch wafers to the JV Company for further assembly and testing services until January 1, 2023, when it changed to consign the 8-inch wafers to the JV Company. Due to the right of offset of receivables and payables with the JV Company, as of June 30, 2023 and 2022, AOS recorded the net amount of \$12.0 million and \$29.0 million, respectively, as a payable related to equity investee, net, on the Consolidated Balance Sheet. Since the December 2, 2021 deconsolidation of the JV Company and through the fiscal year ended June 30, 2022, the Company purchased finished goods and services of \$117.6 million from the JV Company and AOS provided the JV Company with \$36.4 million of 8-inch wafers. The purchases by AOS for the fiscal year ended June 30, 2023 were \$127.8 million and the sales by AOS for the fiscal year ended June 30, 2023 were \$35.6 million.

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

Basic net income (loss) per share is computed using the weighted-average number of common shares outstanding during the period. Diluted net income (loss) per share is computed using the weighted-average number of common shares outstanding, plus potential shares of common stock during the period. Potential shares of common stock include dilutive shares attributable to the assumed exercise of share options, ESPP shares and vesting of RSUs using the treasury stock method and contingent issuances of common shares related to convertible preferred shares, if dilutive. Under the treasury stock method, potential common shares outstanding are not included in the computation of diluted net income per share if their effect is anti-dilutive.

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

	Year Ended June 30,		
	2023	2022	2021
(in thousands, except per share data)			
Numerator:			
Net income attributable to Alpha and Omega Semiconductor Limited	\$ 12,364	\$ 453,163	\$ 58,116
Denominator:			
Basic:			
Weighted average number of common shares used to compute basic net income per share	27,552	26,764	25,786
Diluted:			
Weighted average number of common shares used to compute basic net income per share	27,552	26,764	25,786
Effect of potentially dilutive securities:			
Stock options, RSUs and ESPP shares	1,976	1,439	1,486
Weighted average number of common shares used to compute diluted net income per share	29,528	28,203	27,272
Net income per share attributable to Alpha and Omega Semiconductor Limited:			
Basic	\$ 0.45	\$ 16.93	\$ 2.25
Diluted	\$ 0.42	\$ 16.07	\$ 2.13

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

	Year Ended June 30,		
	2023	2022	2021
(in thousands)			
Employee stock options and RSUs	310	277	193
ESPP	309	21	71
Total potential dilutive securities	619	298	264

5. Concentration of Credit Risk and Significant Customers

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

Credit sales, which are mainly on credit terms of 30 to 60 days, are only made to customers who meet the Company's credit standards, 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:

Percentage of revenue	Year Ended June 30,		
	2023	2022	2021
Customer A	21.6 %	24.6 %	28.7 %
Customer B	35.6 %	39.7 %	35.4 %
Customer D	14.0 %	*	*

Percentage of accounts receivable	June 30,	
	2023	2022
Customer A	15.3 %	24.6 %
Customer B	17.6 %	36.4 %
Customer C	13.3 %	*
Customer D	30.9 %	12.0 %

* Less than 10%

6. Balance Sheet Components

Accounts receivable, net

	June 30,	
	2023	2022
	(in thousands)	
Accounts receivable	\$ 62,426	\$ 84,442
Less: Allowance for price adjustments	(39,976)	(18,731)
Less: Allowance for doubtful accounts	(30)	(30)
Accounts receivable, net	<u>\$ 22,420</u>	<u>\$ 65,681</u>

Inventories

	June 30,	
	2023	2022
	(in thousands)	
Raw materials	\$ 86,620	\$ 67,960
Work in-process	69,426	80,720
Finished goods	27,201	9,360
	<u>\$ 183,247</u>	<u>\$ 158,040</u>

Other current assets

	June 30,	
	2023	2022
	(in thousands)	
VAT receivable	\$ 275	\$ 737
Other prepaid expenses	3,863	3,954
Prepaid insurance	4,162	2,590
Prepaid maintenance	1,697	826
Prepayments to supplier	10,689	257
Prepaid income tax	707	2,086
Interest receivable	135	25
Other receivables	1,138	745
	<u>\$ 22,666</u>	<u>\$ 11,220</u>

Property, plant and equipment, net

	June 30,	
	2023	2022
	(in thousands)	
Land	\$ 4,877	\$ 4,877
Building and building improvements	26,478	16,691
Manufacturing machinery and equipment	398,757	287,574
Equipment and tooling	32,737	28,052
Computer equipment and software	49,890	46,758
Office furniture and equipment	3,087	2,820
Leasehold improvements	38,787	35,254
	554,613	422,026
Less: accumulated depreciation	(272,503)	(233,340)
	282,110	188,686
Equipment and construction in progress	75,721	129,980
Property, plant and equipment, net	\$ 357,831	\$ 318,666

Total depreciation expense was \$40.4 million, \$39.9 million and \$49.3 million for fiscal year 2023, 2022 and 2021, respectively.

The Company capitalized \$0.5 million, \$0.3 million and \$0.3 million of software development costs during the fiscal year 2023, 2022 and 2021, respectively. Amortization of capitalized software development costs was \$0.4 million in fiscal year 2023, \$0.4 million in fiscal year 2022 and \$0.5 million in fiscal year 2021. Unamortized capitalized software development costs in each of the periods presented at June 30, 2023 and 2022 were \$0.9 million and \$0.8 million, respectively.

Other long-term assets

	June 30,	
	2023	2022
	(in thousands)	
Prepayments for property and equipment	\$ 1,717	\$ 6,890
Investment in privately held companies	100	100
Customs deposit	931	1,708
Deposit with supplier	12,290	6,396
Other long-term deposits	37	18
Office leases deposits	1,274	1,012
Other	3,354	1,553
	\$ 19,703	\$ 17,677

Intangible assets, net

	June 30,	
	2023	2022
	(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	(12,959)	(9,674)
	6,496	9,781
Goodwill	269	269
Intangible assets, net	\$ 6,765	\$ 10,050

The Company is amortizing intangible assets of patents and technology rights related to a license agreement with STMicroelectronics International N.V. Amortization expense for intangible assets was \$3.3 million, \$3.4 million and \$3.4 million for the years ended June 30, 2023, 2022 and 2021, respectively. The estimated useful lives for patents and technology rights and trade name were five years and ten years, respectively. Customer relationships are fully amortized.

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

Year ending June 30,	
2024	\$ 3,249
2025	3,247
	\$ 6,496

Accrued liabilities

	June 30,	
	2023	2022
	(in thousands)	
Accrued compensation and benefits	\$ 15,627	\$ 34,681
Warranty accrual	1,674	2,650
Stock rotation accrual	5,588	4,798
Accrued professional fees	2,458	2,659
Accrued inventory	1,597	2,491
Accrued facilities related expenses	2,327	2,421
Accrued property, plant and equipment	6,402	20,485
Other accrued expenses	4,401	5,159
Customer deposit	38,082	40,578
ESPP payable	1,377	971
	<u>\$ 79,533</u>	<u>\$ 116,893</u>

Short-term customer deposits are payments received from customers for securing future product shipments. As of June 30, 2023, \$13.5 million were from Customer A and \$9.2 million were from Customer B, and \$15.4 million were from other customers. As of June 30, 2022, \$12.5 million were from Customer A and \$16.2 million were from Customer B, and \$11.9 million were from other customers.

The activity in the warranty accrual, included in accrued liabilities is as follows:

	Year Ended June 30,		
	2023	2022	2021
	(in thousands)		
Beginning balance	\$ 2,650	\$ 2,795	\$ 709
Addition	3,666	1,127	2,443
Utilization	(4,642)	(1,272)	(357)
Ending balance	<u>\$ 1,674</u>	<u>\$ 2,650</u>	<u>\$ 2,795</u>

The activity in the stock rotation accrual, included in accrued liabilities is as follows:

	Year Ended June 30,		
	2023	2022	2021
	(in thousands)		
Beginning balance	\$ 4,798	\$ 3,917	\$ 3,358
Addition	13,950	5,817	4,742
Utilization	(13,160)	(4,936)	(4,183)
Ending balance	<u>\$ 5,588</u>	<u>\$ 4,798</u>	<u>\$ 3,917</u>

Other long-term liabilities

	June 30,	
	2023	2022
	(in thousands)	
Customer deposits	\$ 46,393	\$ 70,301
Computer software liabilities	4,644	8,302
Other long-term liabilities	\$ 51,037	\$ 78,603

Customer deposits are payments received from customers for securing future product shipments. As of June 30, 2023, \$21.0 million were from Customer A and \$11.7 million were from Customer B, and \$13.7 million were from other customers. As of June 30, 2022, \$34.5 million were from Customer A and \$21.9 million were from Customer B and \$13.9 million were from other customers.

7. Bank Borrowing

Short-term bank borrowing

In January 2023, one of the Company's subsidiaries in China entered into a line of credit facility with Bank of Communications Limited in China. The purpose of the credit facility is to provide working capital borrowings. The Company could borrow up to approximately RMB 140 million or \$20.6 million based on currency exchange rate between RMB and U.S. Dollar on January 31, 2023 with a maturity date of December 1, 2023. As of June 30, 2023, there was no outstanding balance for this loan.

In September 2022, one of the Company's subsidiaries 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 working capital 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 September 20, 2022 with a maturity date of September 30, 2023. As of June 30, 2023, there was no outstanding balance.

In October 2019, one of the Company's subsidiaries in China entered into a line of credit facility with Bank of Communications Limited in China. This line of credit matured on February 14, 2021 and was 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. During the three months ended December 31, 2021, the Company borrowed RMB 11.0 million, or \$1.6 million, at an interest rate of 3.85% per annum, with principal due on November 18, 2022. As of June 30, 2023, there was no outstanding balance and this loan was expired.

On November 16, 2018, one of the Company's subsidiaries 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. During the three months ended December 31, 2021, the Company borrowed RMB 5.0 million, or \$0.8 million, at an interest rate of 3.7% per annum, with principal due on September 12, 2022. As of June 30, 2023, there was no outstanding balance and this loan was expired.

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. The Borrower was in compliance with these covenants as of June 30, 2023. As of June 30, 2023, there was no outstanding balance and the Company had unused credit of approximately \$8.0 million.

Debt financing

In September 2021, Jireh Semiconductor Incorporated ("Jireh"), one of the wholly-owned subsidiaries, entered into a financing arrangement agreement with a company ("Lender") for the lease and purchase of a machinery equipment manufactured by a supplier. This agreement has a 5 years term, after which Jireh has the option to purchase the equipment for \$1. The implied interest rate was 4.75% per annum which was adjustable based on every five basis point increase in 60-month U.S. Treasury Notes, until the final installation and acceptance of the equipment. The total purchase price of this equipment was euro 12.0 million. In April 2021, Jireh made a down payment of euro 6.0 million, representing 50% of the total purchase price of the equipment, to the supplier. In June 2022, the equipment was delivered to Jireh after Lender paid 40% of the total purchase price, for euro 4.8 million, to the supplier on behalf of Jireh. In September 2022, Lender paid the remaining 10% payment for the total purchase price and reimbursed Jireh for the 50% down payment, after the installation and configuration of the equipment. The title of the equipment was transferred to Lender following such payment. The agreement was amended with fixed implied interest rate of 7.51% and monthly payment of principal and interest effective in October 2022. Other terms remain the same. In addition, Jireh purchased hardware for the machine under this financing arrangement. The purchase price of this hardware was \$0.2 million. The financing arrangement is secured by this equipment and other equipment which had the carrying amount of \$15.2 million as of June 30, 2023. As of June 30, 2023, the outstanding balance of this debt financing was \$11.9 million.

Long-term bank borrowings

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 years 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 the Company is required to maintain. Jireh drew down \$45.0 million on February 16, 2022 with the first payment of principal beginning in October 2022. As of June 30, 2023, Jireh was in compliance with these covenants and the outstanding balance of this loan was \$38.3 million.

On May 1, 2018, Jireh entered into a loan agreement with the Bank that provided a term loan in an 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. Jireh made consecutive monthly payments of principal and interest to the Bank. The outstanding principal shall accrue 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 paid this loan in full on May 1, 2023. As of June 30, 2023, there was no outstanding balance and this loan was expired.

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 fabrication facility located in Oregon. The obligation under the credit agreement was secured by substantially all assets of Jireh and guaranteed by the Company. The credit agreement had a five-year term and matured on August 15, 2022. In January 2018 and July 2018, Jireh drew down on the loan in the amount of \$13.2 million and \$16.7 million, respectively. Beginning in October 2018, Jireh was required to pay to the Bank on each payment date, the outstanding principal amount of the loan in monthly installments. The loan accrued interest based on an adjusted LIBOR as defined in the credit agreement, plus specified applicable margin in the range of 1.75% to 2.25%, based on the outstanding balance of the loan. The credit agreement contained customary restrictive covenants and included certain financial covenants that required 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 loan was fully paid off in September, 2022. As of June 30, 2023, there was no outstanding balance and this loan was expired.

At June 30, 2023, maturities of short-term debt and long-term debt were as follows (in thousands):

Year ending June 30,	
2024	\$ 11,472
2025	11,664
2026	11,871
2027	14,344
2028	536
Total principal of debt	49,887
Less: debt issuance costs	(93)
Total principal of debt, less debt issuance costs	<u>\$ 49,794</u>

	Short-term Debt	Long-term Debt	Total
Principal amount	\$ 11,472	\$ 38,415	\$ 49,887
Less: debt issuance costs	(38)	(55)	(93)
Total debt, less debt issuance costs	<u>\$ 11,434</u>	<u>\$ 38,360</u>	<u>\$ 49,794</u>

8. 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 Consolidated Balance Sheets. Finance leases are included in property, plant and equipment, finance lease liabilities and finance lease liabilities-long-term on the 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 \$5.1 million of a machinery lease financing with a vendor. In September 2022, the lease was amended to make a monthly payment of principal and interest as a fixed amount effective in October 2022. Other terms remain the same. The amendment was accounted for as a debt modification and no gain or loss was recognized. The Company does not record leases on the consolidated balance sheet with a term of one year or less.

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

	Fiscal Year Ended June 30, 2023	Fiscal Year Ended June 30, 2022
Operating leases:		
Fixed rent expense	\$ 5,779	\$ 6,262
Variable rent expense	1,014	946
Finance lease:		
Amortization of equipment	522	908
Interest	306	976
Short-term leases:		
Short-term lease expenses	400	205
Total lease expenses	<u>\$ 8,021</u>	<u>\$ 9,297</u>

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

	June 30, 2023	June 30, 2022
Operating Leases:		
ROU assets associated with operating leases	\$ 24,349	\$ 23,674
Finance Lease:		
Property, plant and equipment, gross	\$ 5,133	\$ 4,831
Accumulated depreciation	(657)	(136)
Property, plant and equipment, net	\$ 4,476	\$ 4,695
Weighted average remaining lease term (in years)		
Operating leases	6.57	7.42
Finance lease	4.25	5.00
Weighted average discount rate		
Operating leases	4.67 %	4.27 %
Finance lease	7.51 %	4.76 %

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

	Fiscal Year Ended June 30, 2023	Fiscal Year Ended June 30, 2022
Cash paid from amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 5,945	\$ 6,480
Operating cash flows from finance lease	\$ 306	\$ 976
Financing cash flows from finance lease	\$ 810	\$ 4,176
Non-cash investing and financing information:		
Operating lease right-of-use assets obtained in exchange for lease obligations	\$ 5,579	\$ 5,852

Future minimum lease payments are as follows as of June 30, 2023 (in thousands):

	Operating Leases	Finance Leases
2024	\$ 5,452	\$ 1,144
2025	4,623	1,144
2026	3,807	1,144
2027	3,647	1,145
2028	3,317	191
Thereafter	8,303	—
Total minimum lease payments	29,149	4,768
Less amount representing interest	(4,222)	(685)
Total lease liabilities	\$ 24,927	\$ 4,083

9. Shareholders' Equity

Common Shares

The Company's Bye-laws, as amended, authorized the Company to issue 100,000,000 common shares with par value of \$0.002. Each common share is entitled to one vote. The holders of common shares are also entitled to receive dividends whenever funds are legally available and when and if declared by the board of directors. No dividends had been declared as of June 30, 2023.

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 stock-based compensation programs. Gains on re-issuance of treasury stock are credited to additional paid-in capital; losses are charged to additional paid-in capital to offset the net gains, if any, from previous sales or re-issuance of treasury stock. Any remaining balance of the losses is charged to retained earnings.

During fiscal year 2023, the Company repurchased an aggregate of 548,132 shares, from the open market for a total cost of approximately \$13.4 million, excluding fees and related expenses, at an average price of \$24.51 per share. During fiscal year 2022 and 2021, the Company did not repurchase any shares pursuant to the repurchase program.

As of June 30, 2023, the Company had repurchased an aggregate of 7,332,780 shares for a total cost of \$81.1 million, at an average price of \$11.01 per share, excluding fees and related expenses, since inception of the program. No repurchased shares have been retired. Of the 7,332,780 repurchased shares, 175,599 shares with a weighted average repurchase price of \$9.97 per share, were reissued at an average price of \$4.76 per share for option exercises and vested restricted stock units ("RSU"). As of June 30, 2023, there was none remaining available under the share repurchase program.

10. Share-based Compensation

2018 Omnibus Incentive Plan

The 2009 Share Option/Share Issuance Plan (the “2009 Plan”) was approved in September 2009 at the annual general meeting of shareholders in connection with the Company's IPO. At the annual general meeting of shareholders in November 2018, the 2009 Plan was approved to be terminated and the 2018 Omnibus Incentive Plan (the “2018 Plan”) was effective. No further awards will be made under the 2009 Plan. The 2018 Plan authorized the board of directors to grant incentive share options, non-statutory share options and restricted shares to employees, directors, non-employee directors and consultants of the Company and its subsidiaries for up to 2,065,000 common shares. The 2018 Plan does not include an evergreen authorization. Therefore, the Company is not permitted to increase the number of shares reserved in the share pool without obtaining further shareholder approval. Outstanding shares under the 2018 Plan and awards granted under the 2009 Plan that expire, are forfeited or cancelled or terminate prior to the issuance of the shares subject to those awards or are settled in cash will be available for subsequent issuance under the 2018 Plan. At the annual general meeting of shareholders in November 2021 and 2022, the 2018 Plan was approved to increase by 1,000,000 and 740,000 shares, respectively, to a total of 3,805,000 shares. As of June 30, 2023, 611,994 shares were available for grant under the 2018 Plan.

Beginning with the 2014 Annual Shareholders Meeting, on the date of each annual shareholders meeting, each individual who commences service as a non-employee Board member by reason of his or her election to the Board at such annual meeting and each individual who is to continue to serve as a non-employee Board member, whether or not that individual is standing for re-election to the Board at that particular annual meeting, will automatically be granted an award in the form of restricted share units covering that number of common shares determined by dividing one hundred thirty-five thousand dollars (\$135,000) by the average fair market value per share for the ninety (90)-day period preceding the grant date, up to a maximum of 10,000 shares.

Under the 2018 Plan, incentive share options and RSU are to be granted at a price that is not less than 100% and nonstatutory share options are to be granted at not less than 85% of the fair value of the common shares, at the date of grant for employees and consultants. Options and RSUs generally vest over a four-year to five-year period, and are exercisable for a maximum period of ten years after the date of grant.

The fair value of RSU, including time-based restricted stock units and performance-based restricted stock units is based on the market price of the Company's share on the date of grant.

Time-based Restricted Stock Units (“TRSU”)

The following table summarizes the Company's TRSU activities:

	Number of Restricted Stock Units	Weighted Average Grant Date Fair Value Per Share	Weighted Average Remaining Recognition Period (Years)	Aggregate Intrinsic Value
Nonvested at June 30, 2020	932,138	\$ 11.36	1.66	\$ 10,141,661
Granted	722,873	\$ 29.85		
Vested	(567,087)	\$ 15.70		
Forfeited	(34,400)	\$ 14.88		
Nonvested at June 30, 2021	1,053,524	\$ 21.60	1.73	\$ 32,016,594
Granted	597,381	\$ 45.83		
Vested	(410,670)	\$ 20.54		
Forfeited	(70,626)	\$ 26.79		
Nonvested at June 30, 2022	1,169,609	\$ 34.03	1.73	\$ 38,994,764
Granted	714,080	\$ 27.70		
Vested	(451,549)	\$ 28.84		
Forfeited	(47,075)	\$ 33.40		
Nonvested at June 30, 2023	1,385,065	\$ 32.48	1.73	\$ 45,430,132

Performance-based Restricted Stock Units (“PRSU”)

In March each year since fiscal year 2017, the Company granted PRSU to certain personnel. The number of shares to be ultimately earned under the PRSU is determined based on the level of attainment of predetermined financial goals. The PRSU vests in four equal annual installments from the first anniversary date after the grant date if certain predetermined financial goals were met. The Company recorded \$5.2 million, \$4.6 million and \$2.3 million of expenses for these PRSUs during the years ended June 30, 2023, 2022 and 2021, respectively.

During the quarter 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 June 30, 2022 and 2021, the Company recorded nil and \$0.1 million such expenses in the other current liabilities, respectively. During the fiscal years ended June 30, 2022, 2021 and 2020, the Company recorded \$0.3 million, \$3.1 million and \$0.6 million of non-cash compensation expense, respectively. As of June 30, 2022, the Company granted RSUs valued at \$4.0 million to participants, which were fully vested due to achievement of certain objective measures.

The following table summarizes the Company’s PRSU activities:

	Number of Performance-based Restricted Stock Units	Weighted Average Grant Date Fair Value Per Share	Weighted Average Remaining Recognition Period (Years)	Aggregate Intrinsic Value
Nonvested at June 30, 2020	342,775	\$ 12.38	1.60	\$ 3,729,392
Granted	165,500	\$ 36.27		
Vested	(148,211)	\$ 14.24		
Forfeited	(6,240)	\$ 17.23		
Nonvested at June 30, 2021	353,824	\$ 22.69	1.74	\$ 10,752,711
Granted	194,000	\$ 48.65		
Vested	(151,199)	\$ 19.44		
Forfeited	(7,250)	\$ 40.33		
Nonvested at June 30, 2022	389,375	\$ 36.56	1.85	\$ 12,981,763
Granted	264,214	\$ 25.70		
Vested	(116,132)	\$ 30.54		
Forfeited	(10,743)	\$ 48.65		
Nonvested at June 30, 2023	526,714	\$ 32.19	1.78	\$ 17,276,219

Market-based Restricted Stock Units (“MSUs”)

In December 2021, the Company granted 1.0 million market-based restricted stock units (“MSUs”) to its 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, 2022 to December 31, 2024 as well as the recipients remaining in continuous service with the Company through such period. The MSU vests in four equal annual installments after the end of performance period. The Company estimated the grant date fair values of its MSU with derived service periods of 4.1 to 7.1 years using a Monte-Carlo simulation model with the following assumptions: Risk-free interest rate of 1.0%, expected term of 3.1 years, expected volatility of 62.8% and dividend yield of 0%. The Company recorded approximately \$1.9 million and \$4.5 million of expenses for these MSUs during the fiscal year ended June 30, 2023 and 2022, respectively.

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 the 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 performance period. 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 modified MSUs were valued immediately before and after the modification, using Monte-Carlo simulation pricing model. The Monte-Carlo simulation pricing model applied the following assumptions for pre-modification conditions: risk-free interest rate of 0.13%, expected term of 1.3 years, expected volatility of 66.7% and dividend yield of 0%; and for post-modification conditions: risk-free interest rate of 0.14%, expected term of 2.3 years, expected volatility of 59.1% and dividend yield of 0%. 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 \$3.9 million, \$1.6 million and \$1.2 million of expense for these MSUs during the years ended June 30, 2023, 2022 and 2021, respectively.

The following table summarizes the Company's MSUs activities:

	Number of Performance-based Restricted Stock Units	Weighted Average Grant Date Fair Value Per Share	Weighted Average Remaining Recognition Period (Years)	Aggregate Intrinsic Value
Nonvested at June 30, 2020	1,290,000	\$ 5.17	3.88	\$ 14,035,200
Forfeited	(50,000)	\$ 5.17		
Nonvested at June 30, 2021	1,240,000	\$ 5.17	3.84	\$ 37,683,600
Granted	1,022,000	\$ 48.44		
Forfeited	(56,000)	\$ 9.81		
Nonvested at June 30, 2022	2,206,000	\$ 25.10	3.83	\$ 73,548,040
Vested	(90,000)	\$ 5.17		
Forfeited	(8,000)	\$ 48.44		
Nonvested at June 30, 2023	<u>2,108,000</u>	\$ 25.86	2.96	\$ 69,142,400

Stock Option

The following table summarizes the Company's stock option activities:

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at June 30, 2020	643,978	\$ 8.79	2.89	
Granted	—	\$ —		
Exercised	(156,103)	\$ 11.31		\$ 1,272,291
Canceled or forfeited	—	\$ —		
Outstanding at June 30, 2021	487,875	\$ 7.99	2.32	
Granted	—	\$ —		
Exercised	(98,000)	\$ 9.15		\$ 3,936,675
Canceled or forfeited	—	\$ —		
Outstanding at June 30, 2022	389,875	\$ 7.70	1.53	
Granted	—	\$ —		
Exercised	(65,500)	\$ 8.42		\$ 1,442,646
Canceled or forfeited	(5,000)	\$ 9.19		
Outstanding at June 30, 2023	<u>319,375</u>	\$ 7.53	0.72	\$ 8,071,631
Options vested and expected to vest	<u>319,375</u>	\$ 7.53	0.72	\$ 8,071,631
Exercisable at June 30, 2023	<u>319,375</u>	\$ 7.53	0.72	\$ 8,071,631

The aggregate intrinsic value for options outstanding at June 30, 2023 in the table above is based on the Company's common stock closing price on June 30, 2023.

The 2018 Employee Share Purchase Plan

At the annual general meeting of shareholders in November 2018, the 2018 Employee Share Purchase Plan ("Purchase Plan" or "ESPP") Plan was approved, under which 1,430,000 common shares are available for issuance. The Purchase Plan does not include an evergreen authorization, therefore the Company is not permitted to increase the number of shares reserved in the share pool without obtaining further shareholder approval. At the general meeting of shareholders in November 2021, the ESPP Plan was approved to increase from 1,430,000 shares to 2,500,000 shares. The Purchase Plan provided for a series of overlapping offering periods with a duration of 24 months, generally beginning on May 15 and November 15 of each year. The Purchase Plan allows employees to purchase common shares through payroll deductions of up to 15% of their eligible compensation. Such deductions will accumulate over a six-month accumulation period without interest. After such accumulation period, common shares will be purchased at a price equal to 85% of the fair market value per share on either the first day of the offering period or the last date of the accumulation period, whichever is less. The maximum number of shares that may be purchased by a participant on any purchase date may not exceed 875 shares for a total of 3,500 shares per a 24-month offering period. In addition, no participant may purchase more than \$25,000 worth of common stock in any one calendar year period. No more than 300,000 common shares may be purchased by all participants on any purchase date.

The ESPP is compensatory and results in compensation expense. The fair values of common shares to be issued under the ESPP were determined using the Black-Scholes option pricing model with the following assumptions:

	Year Ended June 30,		
	2023	2022	2021
Volatility rate	64.0% - 70.5%	66.4% - 69.9%	63.1% - 68.5%
Risk-free interest rate	4.5% - 4.6%	0.3% - 2.1%	0.1% - 0.2%
Expected term	1.3 years	1.3 years	1.3 years
Dividend yield	—%	—%	—%

The weighted-average estimated fair value of employee stock purchase rights granted pursuant to the ESPP during the years ended June 30, 2023, 2022 and 2021 was \$11.46, \$16.48 and \$11.11 per share, respectively.

Share-based Compensation Expenses

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

	Year Ended June 30,		
	2023	2022	2021
	(in thousands)		
Cost of goods sold	\$ 5,851	\$ 5,125	\$ 1,756
Research and development	9,437	7,049	5,352
Selling, general and administrative	22,200	19,150	8,216
	<u>\$ 37,488</u>	<u>\$ 31,324</u>	<u>\$ 15,324</u>

Total unrecognized share-based compensation expense as of June 30, 2023 was \$56.1 million including estimated forfeitures, which is expected to be recognized over a weighted-average period of 2.2 years.

11. Employee Benefit Plans

The Company maintains a 401(k) retirement plan for the benefit of qualified employees in the U.S. Employees who participate may elect to make salary deferral contributions to the plan up to 100% of the employees' eligible salary subject to annual Internal Revenue Code maximum limitations. The employer's contribution is discretionary. Effective from April 1,

2022, the Company begins to match 50% of employee contribution up to 4% of eligible compensation for a 2% maximum match. During the fiscal year ended June 30, 2023 and 2022, the Company made employer match contributions of \$1.0 million and \$0.3 million, respectively.

The Company makes mandatory contributions for its employees to the respective local governments in terms of retirement, medical insurance and unemployment insurance, where applicable, according to labor and social security laws and regulations of the countries and areas in which the Company operates. The retirement contribution rate is 7.7% in the U.S., 15.0% to 16.0% in China, 6.0% in Taiwan, and 12.0% in India. The Company has no obligations for the payment of such social benefits beyond the required contributions as set out above.

12. Income Taxes

The provision for income taxes is comprised of:

	Year Ended June 30,		
	2023	2022	2021
	(in thousands)		
U.S. federal taxes:			
Current	\$ 1,093	\$ 645	\$ 31
Deferred	549	2,260	1,955
Non-U.S. taxes:			
Current	4,620	7,749	2,344
Deferred	(404)	28,599	(396)
State taxes, net of federal benefit:			
Current	79	5	1
Total provision for income taxes	<u>\$ 5,937</u>	<u>\$ 39,258</u>	<u>\$ 3,935</u>

The reconciliation of the federal statutory income tax rate to our effective income tax rate is as follows (in percentage):

	Year Ended June 30,		
	2023	2022	2021
United States statutory rate	21.0 %	21.0 %	21.0 %
Stock-based compensation	0.2	0.0	0.1
Foreign taxes, net	13.5	(14.3)	(14.4)
Outside basis difference on equity method investment	(1.0)	1.2	—
Tax credits	(13.3)	(0.3)	(2.4)
Non-deductible expenses	1.5	—	2.4
Tax exempt income	(1.5)	—	—
Withholding taxes	9.0	—	—
Non-deductible executive compensation	7.3	0.5	—
Foreign derived intangible income deduction	(7.2)	(0.3)	—
Other	0.6	0.1	(0.2)
	<u>30.1 %</u>	<u>7.9 %</u>	<u>6.5 %</u>

The domestic and foreign components of income before taxes are:

	Year Ended June 30,		
	2023	2022	2021
	(in thousands)		
U.S. operations	\$ 19,001	\$ 16,684	\$ 9,622
Non-U.S. operations	711	478,386	50,602
Net income before income taxes	<u>\$ 19,712</u>	<u>\$ 495,070</u>	<u>\$ 60,224</u>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of our deferred tax assets and liabilities are as follows:

	June 30,	
	2023	2022
	(in thousands)	
Deferred tax assets:		
Accrued compensation	\$ 2,218	\$ 5,742
Net operating loss carryforwards	18	61
Depreciation	5,360	4,365
Tax credits	15,180	15,079
Operating lease liabilities	4,567	5,807
Capitalized R&D costs	1,116	—
Accruals and reserves	558	643
Total deferred tax assets	<u>29,017</u>	<u>31,697</u>
Valuation allowance	<u>(6,686)</u>	<u>(5,755)</u>
Total deferred tax assets, net of valuation allowance	<u>22,331</u>	<u>25,942</u>
Deferred tax liabilities:		
Depreciation and amortization	(16,899)	(18,909)
Right of use assets	(4,315)	(5,579)
Investments	(27,864)	(29,619)
Total deferred tax liabilities	<u>(49,078)</u>	<u>(54,107)</u>
Net deferred tax liabilities	<u>\$ (26,747)</u>	<u>\$ (28,165)</u>

The breakdown between deferred tax assets and liabilities is as follows:

	June 30,	
	2023	2022
	(in thousands)	
Long-term deferred tax assets	\$ 536	\$ 592
Long-term deferred tax liabilities	(27,283)	(28,757)
Net deferred tax liabilities	<u>\$ (26,747)</u>	<u>\$ (28,165)</u>

The Company's valuation allowance related to deferred income taxes as reflected in the consolidated balance sheets was \$6.7 million and \$5.8 million as of June 30, 2023 and 2022, respectively. The change in valuation allowance for June 30, 2023 and 2022 was an increase of \$0.9 million and a decrease of \$35.7 million, respectively.

At June 30, 2023 and 2022, the Company provided a valuation allowance for its state research and development credit carryforward deferred tax assets of \$6.7 million and \$5.8 million, respectively, as it generated more state tax credits each year than it can utilize. The Company intends to maintain a valuation allowance equal to the state research and development credit carryforwards in excess of the state net deferred tax liabilities on all other state book/tax differences and net operating loss carryforward.

At June 30, 2021, the Company provided a valuation allowance mainly for the net operating loss, fixed asset and intangible asset related to deferred tax assets of the JV Company totaling \$35.7 million. The valuation allowance related to the deferred tax assets of the JV Company was reduced to \$0 at June 30, 2022 as a result of the deconsolidation of the JV Company in December 2021.

At June 30, 2023, the Company had federal research and development tax credit carryforwards of approximately \$8.0 million. The federal tax credits begin to expire in 2039, if not utilized. At June 30, 2023, the Company had state tax credit carryforwards of approximately \$9.0 million, which carryforward indefinitely.

The Company has not provided for withholding taxes on the undistributed earnings of its foreign subsidiaries because it intends to reinvest such earnings indefinitely. However, we have recorded a deferred tax liability of \$27.9 million at June 30, 2023 related to our investment in the JV Company. As of June 30, 2023, the cumulative amount of undistributed earnings of its foreign entities considered permanently reinvested is \$374.0 million. The determination of the unrecognized deferred tax liability on these earnings is not practicable. Should the Company decide to remit this income to its Bermuda parent company in a future period, its provision for income taxes may increase materially in that period.

A reconciliation of the beginning and ending amount of unrecognized tax benefits from July 1, 2020 to June 30, 2023 is as follows:

	Year Ended June 30,		
	2023	2022	2021
	(in thousands)		
Balance at beginning of year	\$ 8,609	\$ 7,645	\$ 7,126
Additions based on tax positions related to the current year	804	1,121	677
Reductions based on tax positions related to prior years	(68)	(40)	(41)
Reductions due to lapse of applicable statute of limitations	(10)	(117)	(117)
Balance at end of year	<u>\$ 9,335</u>	<u>\$ 8,609</u>	<u>\$ 7,645</u>

At June 30, 2023, the total unrecognized tax benefits of \$9.3 million included \$6.8 million of unrecognized tax benefits that have been netted against the related deferred tax assets. The remaining \$2.5 million of unrecognized tax benefits was recorded within long-term income tax payable on the Company's consolidated balance sheet as of June 30, 2023. The Company cannot reasonably estimate the timing and amount of potential cash settlements on the unrecognized tax benefits.

The total unrecognized tax benefits of \$9.3 million at June 30, 2023 included \$6.3 million that, if recognized, would reduce the effective income tax rate in future periods. It is reasonably possible that the Company will recognize approximately no reduction to its uncertain tax positions during the next twelve months.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. To the extent accrued interest and penalties do not ultimately become payable, amounts accrued will be reduced and reflected as a reduction of the overall income tax provision in the period that such determination is made. The amount of interest and penalties accrued at June 30, 2023 was \$0.3 million, of which \$0.1 million was recognized in the year ended June 30, 2023. The amount of interest and penalties accrued at June 30, 2022 was \$0.2 million, of which \$32 thousand was recognized in the year ended June 30, 2022.

The Company files its income tax returns in the United States and in various foreign jurisdictions. The tax years 2004 to 2023 remain open to examination by U.S. federal and state tax authorities due to tax attribute carryovers. The tax years 2017 to 2023 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. 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.

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

On December 22, 2017, the United States enacted tax legislation commonly known as the Tax Cuts and Jobs Act ("the Tax Act"), which significantly changed 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 move from a worldwide tax system toward a territorial system through a "participation exemption" deduction for certain foreign-source dividends, (3) eliminating the corporate alternative minimum tax (AMT) and changing how existing AMT credits can be realized, (4) bonus depreciation that allows 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 U.S. affiliates, where such payments reduce the U.S. 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.

The Company is subject to U.S. research expense capitalization under IRC Section 174 and is eligible for the foreign derived intangible income (FDII) deductions under the 2017 U.S. Tax Cuts and Jobs Act. The IRC Section 174 research expense capitalization results in a timing difference which is amortizable over five years for domestic R&D expenditures and 15 years for foreign R&D expenditures. The FDII deduction results in a favorable permanent book-tax difference which is based on multiple factors including the amount of foreign sourced taxable income of U.S. corporations.

"U.S. Coronavirus Aid, Relief and Economic Security Act" ("CARES Act"), Enacted March 27, 2020

On March 27, 2020, the United States enacted the CARES Act, which made the changes to existing U.S. tax laws, including, but not limited to, (1) allowing U.S. federal net operating losses originated in the 2018, 2019 or 2020 tax years to be carried back five years to recover taxes paid based upon taxable income in the prior five years, (2) eliminated the 80% of taxable income limitation on net operating losses for the 2018, 2019 and 2020 tax years (the 80% limitation will be reinstated for tax years after 2020), (3) accelerating the refund of prior year alternative minimum tax credits, (4) modifying the bonus depreciation for qualified improvement property and (5) modifying the limitation on deductible interest expense.

As a result of the ability to carryback net operating losses from the June 2018 and June 2019 years to the June 2015 to June 2017 tax years, net operating losses which were previously tax-effected using the current 21% U.S. federal tax rate were revalued to the U.S. tax rates in effect for the June 2015 to June 2017 tax years due to the ability of receiving tax refunds for the taxes paid in these years. Accordingly, we reported a discrete tax benefit of \$1.1 million in the third quarter of fiscal year 2020 related to the re-measurement of the net operating losses that could be realized via the new net operating loss carryback provisions.

"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.

"The Chip and Science Act of 2022", Enacted August 2, 2022

In August 2022 the U.S. enacted the Chip and Science Act of 2022 (the Chips Act). The Chips Act provides incentives to semiconductor chip manufacturers in the United States, including providing a 25% manufacturing investment credits for investments in semiconductor manufacturing property placed in service after December 31, 2022, for which construction begins before January 1, 2027. Property investments qualify for the 25% credit if, among other requirements, the property is integral to the operation of an advanced manufacturing facility, defined as having a primary purpose of manufacturing semiconductors or semiconductor manufacturing equipment. Currently, we are evaluating the impact of the Chips Act to us.

"The Inflation Reduction Act", Enacted August 16, 2022

In August 2022 the United States enacted tax legislation through the Inflation Reduction Act (IRA). The IRA introduces a 15% corporate alternative minimum tax (CAMT) for corporations whose average annual adjusted financial statement income (AFSI) for any consecutive three-tax-year period preceding the applicable tax year exceeds \$1 billion. The CAMT is effective for tax years beginning after 31 December 2022. The CAMT is currently not applicable to the Company.

Altera Litigation

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. 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 June 2023. The Company will continue to monitor ongoing developments and potential impact to its financial statements.

13. 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-makers are the Executive Chairman and the Chief Executive Officer. The financial information presented to the Company's Executive Chairman and 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.

In February 2023, the Company entered into a license agreement with a customer to license the Company's proprietary SiC technology and to provide 24-months of engineering and development services for a total fee of \$45 million.

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

	Year Ended June 30,		
	2023	2022	2021
	(in thousands)		
Hong Kong	\$ 561,855	\$ 630,238	\$ 537,553
China	84,546	120,978	107,325
South Korea	9,168	11,802	5,497
United States	19,744	12,470	5,492
Other countries	16,008	2,064	1,035
	<u>\$ 691,321</u>	<u>\$ 777,552</u>	<u>\$ 656,902</u>

	Year Ended June 30,		
	2023	2022	2021
	(in thousands)		
Power discrete	\$ 458,795	\$ 545,135	\$ 482,718
Power IC	218,620	220,882	161,726
Packaging and testing services	3,979	11,535	12,458
License and development services	9,927	—	—
	<u>\$ 691,321</u>	<u>\$ 777,552</u>	<u>\$ 656,902</u>

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:

	June 30,	
	2023	2022
	(in thousands)	
China	\$ 114,822	\$ 105,326
United States	263,083	232,731
Other countries	4,275	4,283
	<u>\$ 382,180</u>	<u>\$ 342,340</u>

14. Restricted Net Assets

Laws and regulations in China permit payments of dividends by the Company's subsidiaries in China only out of their retained earnings, if any, as determined in accordance with China accounting standards and regulations. Each China subsidiary is also required to set aside at least 10% of its after-tax profit, if any, based on China accounting standards each year to its statutory reserves until the cumulative amount of such reserves reaches 50% of its registered capital. As a result of these China laws and regulations, the Company's China subsidiaries are restricted in their abilities to transfer a portion of their net assets to the Company. As of June 30, 2023 and 2022, such restricted portion amounted to approximately \$93.2 million and \$92.4 million, or 10.5% and 10.8%, of our total consolidated net assets attributable to the Company, respectively. As the Company's China subsidiaries are not revenue generating operating units, the Company does not expect to repatriate funds in the form of dividends, loans or advances from its China subsidiaries for working capital and other funding purposes.

15. Commitments and Contingencies

Purchase commitments

As of June 30, 2023 and 2022, the Company had approximately \$127.5 million and \$89.9 million, respectively, of outstanding purchase commitments primarily for purchases of semiconductor raw materials, wafers, spare parts, packaging and testing services and others.

As of June 30, 2023 and 2022, the Company had approximately \$9.7 million, and \$63.4 million, respectively, of commitments for the purchase of property and equipment.

Other commitments

See Notes 1, 7 and 8 to the Consolidated Financial Statements contained in this annual Report on Form 10-K 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.

As previously disclosed, 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" 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. 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 complete its review. 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.

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 June 30, 2023 and 2022.

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

Environmental matters

The Company is subject to various federal, state, local, and foreign laws and regulations governing environmental matters, including the use, handling, discharge, and disposal of hazardous materials. The Company believes that it has been in material compliance with applicable environmental regulations and standards. Complying with current laws and regulations has not had a material adverse effect on the Company's financial condition and results of operations. However, it is possible that additional environmental issues may arise in the future, which the Company cannot currently predict.

ALPHA AND OMEGA SEMICONDUCTOR LIMITED
VALUATION AND QUALIFYING ACCOUNTS
(in thousands)

	Allowance for Doubtful Accounts	Allowance for Price Adjustments	Valuation Allowance for Deferred Tax Assets
June 30, 2020	\$ 30	\$ 30,092	\$ 37,827
Additions	—	178,902	3,647
Reductions	—	(196,579)	—
June 30, 2021	\$ 30	\$ 12,415	\$ 41,474
Additions	—	170,651	—
Reductions	—	(164,335)	(35,719)
June 30, 2022	\$ 30	\$ 18,731	\$ 5,755
Additions	—	165,543	931
Reductions	—	(144,298)	—
June 30, 2023	\$ 30	\$ 39,976	\$ 6,686

(b) Index to Exhibits:

Number	Description
3.1	Memorandum of Association of Registrant (incorporated by reference to Exhibit 3.1 from Registration Statement on Form F-1 (File No. 333-165823) filed with the Commission on March 31, 2010)
3.2	Amended and Restated Bye-laws of Registrant (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed with the Commission on November 12, 2015)
3.3	Amendment No. 1 to Amended and Restated Bye-Laws of Registrant (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed with the Commission on November 14, 2017)
4.1	Form of Common Share Certificate (incorporated by reference to Exhibit 4.2 from Registration Statement on Form F-1 (File No. 333-165823) filed with the Commission on March 31, 2010)
4.2*	Description of Securities of the Registrant
10.7††	Foundry Agreement dated as of January 10, 2002 between the Registrant and Shanghai Hua Hong NEC Electronics Company, Limited (incorporated by reference to Exhibit 10.16 from Registration Statement on Form F-1 (File No. 333-165823) filed with the Commission on March 31, 2010)
10.8††	First Addendum to Foundry Agreement dated as of July 28, 2005 between the Registrant and Shanghai Hua Hong NEC Electronics Company, Limited (incorporated by reference to Exhibit 10.17 from Registration Statement on Form F-1 (File No. 333-165823) initially filed with the Commission on March 31, 2010)
10.9††	Second Addendum to Foundry Agreement dated as of April 11, 2007 between the Registrant and Shanghai Hua Hong NEC Electronics Company, Limited (incorporated by reference to Exhibit 10.18 from Registration Statement on Form F-1 (File No. 333-165823) filed with the Commission on March 31, 2010)
10.10††	Foundry Service Agreement dated as of November 2, 2009 between Alpha & Omega Semiconductor (Macau), Ltd. and Shanghai Hua Hong NEC Electronics Company, Limited (incorporated by reference to Exhibit 10.6 from Registration Statement on Form F-1 (File No. 333-165823) filed with the Commission on March 31, 2010)
10.11	Non-Exclusive Distributor Agreement dated as of July 27, 2010 between Alpha & Omega Semiconductor (Hong Kong) Limited and Frontek Technology Corporation (incorporated by reference to Exhibit 4.17 from Annual Report on Form 20-F (File No. 001-34717) filed with the Commission on September 2, 2010)
10.12††	Supplement to Non-Exclusive Distributor Agreement dated as of July 27, 2010 between Alpha & Omega Semiconductor (Hong Kong) Limited and Frontek Technology Corporation (incorporated by reference to Exhibit 4.18 from Annual Report on Form 20-F (File No. 001-34717) filed with the Commission on September 2, 2010)
10.13††	First Amendment of Supplement to Distribution Agreement dated as of April 21, 2011 between Alpha & Omega Semiconductor (Hong Kong) Limited and Frontek Technology Corporation (incorporated by reference to Exhibit 10.15 from Annual Report Form 10-K (File No. 001-34717) filed with the Commission on September 9, 2011)
10.14	Supplement to Distribution Agreement dated as of July 27, 2010 between the Registrant and Frontek Technology Corporation (incorporated by reference to Exhibit 10.1 from Quarterly Report on Form 10-Q (File No. 001-34717) filed with the Commission on February 6, 2015)
10.15	Non-Exclusive Distributor Agreement dated as of July 27, 2010 between Alpha & Omega Semiconductor (Hong Kong) Limited and Promate Electronic Co., Ltd. (incorporated by reference to Exhibit 4.19 from Annual Report on Form 20-F (File No. 001-34717) filed with the Commission on September 2, 2010)
10.16††	Supplement to Non-Exclusive Distributor Agreement dated as of July 27, 2010 between Alpha & Omega Semiconductor (Hong Kong) Limited and Promate Electronic Co., Ltd. (incorporated by reference to Exhibit 4.20 from Annual Report on Form 20-F (File No. 001-34717) filed with the Commission on September 2, 2010)
10.17††	First Amendment of Supplement to Distribution Agreement dated as of April 21, 2011 between Alpha & Omega Semiconductor (Hong Kong) Limited and Promate Electronic Co., Ltd. (incorporated by reference to Exhibit 10.18 from Annual Report Form 10-K (File No. 001-34717) filed with the Commission on September 9, 2011)

- 10.18 [Supplement to Distribution Agreement dated as of July 27, 2010 between the Registrant and Promate Electronic Co., Ltd \(incorporated by reference to Exhibit 10.2 from Quarterly Report on Form 10-Q \(File No. 001-34717\) filed with the Commission on February 6, 2015\)](#)
- 10.19 [Lease dated as of December 23, 2009 between Alpha and Omega Semiconductor Incorporated and OA Oakmead II, LLC \(incorporated by reference to Exhibit 10.19 from Registration Statement on Form F-1 \(File No. 333-165823\) filed with the Commission on March 31, 2010\)](#)
- 10.20 [Guarantee dated as of January 5, 2010 between the Registrant and OA Oakmead II, LLC \(incorporated by reference to Exhibit 10.20 from Registration Statement on Form F-1 \(File No. 333-165823\) filed with the Commission on March 31, 2010\)](#)
- 10.22(+) [Form of Retention Agreement \(incorporated by reference to Exhibit 10.14 from Registration Statement on Form F-1 \(File No. 333-165823\) filed with the Commission on March 31, 2010\)](#)
- 10.24 [Third Addendum to Foundry Agreement dated as of March 6, 2012 by and among the Registrant and Shanghai Hua Hong NEC Electronics Company, Limited \(incorporated by reference to Exhibit 10.34 from Annual Report on Form 10-K \(File No.: 001-34717\) filed with the Commission on August 31, 2012\)](#)
- 10.25(+) [Amended Form of Restricted Share Unit Issuance Agreement \(incorporated by reference to Exhibit 10.35 from Annual Report on Form 10-K \(File No.: 001-34717\) filed with the Commission on August 31, 2012\)](#)
- 10.27(+) [Form of Restricted Share Unit Agreement \(incorporated by reference to Exhibit 10.3 from Quarterly Report on Form 10-Q \(File No: 001-34717\) filed with the Commission on May 9, 2014\)](#)
- 10.28†† [Joint Venture Contract on Incorporation of Chongqing Alpha and Omega Semiconductor Limited, dated as of March 29, 2016, among the Registrant, certain subsidiaries of the Registrant, Chongqing Strategic Emerging Industry Equity Investment Fund Partnership \(LP\), and Chongqing Liangjiang New Area Strategic Emerging Industry Equity Investment Fund Partnership \(LP\) \(English Translation\) \(incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q \(File No. 001-34717\) filed with the Commission on May 10, 2016\)](#)
- 10.29 (+) [Form of Indemnification Agreement \(incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q \(File No. 001-34717\) filed with the Commission on February 9, 2017\)](#)
- 10.30†† [Engineering, Procurement and Construction Contract dated January 10, 2017 between Chongqing Alpha and Omega Semiconductor Limited and The IT Electronics Eleventh Design & Research Institute Scientific and Technological Engineering Corporation Limited \(the “EPC Contract”\) \(English Translation\) \(incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q \(File No. 001-34717\) filed with the Commission on May 4, 2017\)](#)
- 10.31†† [Amendment No. 1 to EPC Contract effective as of January 10, 2017 \(English Translation\) \(incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q \(File No. 001-34717\) filed with the Commission on May 4, 2017\)](#)
- 10.32†† [Financing Lease Contract, dated May 9, 2018, by and between Chongqing Alpha and Omega Semiconductor Limited and Chongqing YinHai Financing Lease Co., Ltd. \(English Translation\) \(incorporated by reference to Exhibit 10.38 from Annual Report on Form 10-K \(File No. 001-34717\) filed with the Commission on August 23, 2018\)](#)
- 10.33†† [Real Estate Mortgage Contract, dated May 14, 2018, by and between Chongqing Alpha and Omega Semiconductor Limited and the Export-Import Bank of China \(English Translation\) \(incorporated by reference to Exhibit 10.39 from Annual Report on Form 10-K \(File No. 001-34717\) filed with the Commission on August 23, 2018\)](#)
- 10.34 [Second Supplemental Agreement to the Joint Venture Contract on Incorporation of Chongqing Alpha and Omega Semiconductor Limited \(English Translation\) \(incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q \(File No. 001-34717\) filed with the Commission on May 11, 2020\)](#)
- 10.35 [Third Supplemental Agreement to the Joint Venture Contract on Incorporation of Chongqing Alpha and Omega Semiconductor Limited \(English Translation\) \(incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q \(File No. 001-34717\) filed with the Commission on May 11, 2020\)](#)
- 10.36 [First Amendment to Lease dated as of December 23, 2009 between Alpha and Omega Semiconductor Incorporated and ECI Five Oakmead, LLC \(incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q \(File No. 001-34717\) filed with the Commission on May 11, 2020\)](#)

- 10.37 [Alpha & Omega Semiconductor Limited 2018 Omnibus Incentive Plan \(incorporated by reference to Appendix A to the Definitive Proxy Statement on Schedule 14A filed with the Commission on October 13, 2022\)](#)
- 10.38 [Supplemental Agreement to Financing Lease Contract, dated as of June 28, 2020 between YinHai Leasing Company and China Import/Export Bank and Chongqing Alpha and Omega Semiconductor Technology Co., Ltd. \(English Translation\) \(incorporated by reference to Exhibit 10.44 from Annual Report on Form 10-K \(File No. 001-34717\) filed with the Commission on September 2, 2020\)](#)
- 10.39 [Amendment to Market Performance Restricted Share Unit Agreement \(incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q \(File No. 001-34717\) filed with the Commission on November 6, 2020\)](#)
- 10.40 [Supplemental Agreement to Financing Lease Contract, dated August 3, 2020 between YinHai Leasing Company and Chongqing Alpha and Omega Semiconductor Technology Co., Ltd. \(English Translation\) \(incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q \(File No. 001-34717\) filed with the Commission on November 6, 2020\)](#)
- 10.41 [Alpha & Omega Semiconductor Limited 2018 Omnibus Incentive Plan-Plan Amendment \(incorporated by reference to Appendix A to the Definitive Proxy Statement on Schedule 14A filed with the Commission on October 13, 2022\)](#)
- 10.45(+) [2021 Officer Form Retention Agreement for Executive Officers of Alpha and Omega Semiconductor Limited \(incorporated by reference to Exhibit 10.45 from Annual Report on Form 10-K \(File No. 001-34717\) filed with the Commission on August 30, 2021\)](#)
- 10.47(+) [Second Amendment To Lease US Sunnyvale Office \(incorporated by reference to Exhibit 10.47 from Annual Report on Form 10-K \(File No. 001-34717\) filed with the Commission on August 30, 2021\)](#)
- 10.48(+) [Third Amendment To Lease US Sunnyvale Office \(incorporated by reference to Exhibit 10.48 from Annual Report on Form 10-K \(File No. 001-34717\) filed with the Commission on August 30, 2021\)](#)
- 10.49 [Amended and Restated Director Compensation Policy \(incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q \(File No. 001-34717\) filed with the Commission on November 5, 2021\)](#)
- 10.50 [Equity Transfer Agreement of Chongqing Alpha and Omega Semiconductor Limited dated as of December 1, 2021 \(English Translation\) \(incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q \(File No. 001-34717\) filed with the Commission on February 9, 2022\)](#)
- 10.51 [The fourth Supplementary Agreement to the Joint Venture Contract on Incorporation of Chongqing Alpha and Omega Semiconductor Limited dated as of December 1, 2021 \(English Translation\) \(incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q \(File No. 001-34717\) filed with the Commission on February 9, 2022\)](#)
- 10.52 [Fourth Addendum to Foundry Agreement dated as of July 28, 2005 between the Registrant and Shanghai Hua Hong NEC Electronics Company, Limited \(incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q \(File No. 001-34717\) filed with the Commission on May 10, 2022\)](#)
- 10.53 [Fifth Addendum to Foundry Agreement dated as of July 28, 2005 between the Registrant and Shanghai Hua Hong NEC Electronics Company, Limited \(incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q \(File No. 001-34717\) filed with the Commission on May 10, 2022\)](#)
- 10.54† [Shareholders Contract of Chongqing Alpha and Omega Semiconductor Limited dated as of July 12, 2022 \(incorporated by reference to Exhibit 10.54 from Annual Report on Form 10-K \(File No. 001-34717\) filed with the Commission on September 20, 2022\)](#)
- 10.56 [Executive Chairman Employment Agreement \(Mike Chang\) \(incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q \(File No. 001-34717\) filed with the Commission on May 8, 2023\)](#)
- 10.57 [Chief Executive Officer Employment Agreement \(Stephen Chang\) \(incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q \(File No. 001-34717\) filed with the Commission on May 8, 2023\)](#)
- 16.1 [Letter from BDO USA LLP to the Securities and Exchange Commission \(incorporated by reference to Exhibit 16.1 to the Current Report on Form 8-K filed with the Commission on October 11, 2022\)](#)
- 21.1* [List of Subsidiaries of the Registrant](#)
- 23.1* [Consent of Baker Tilly US, LLP, independent registered public accounting firm](#)

23.2*	Consent of BDO USA, P.A., independent registered public accounting firm
31.1*	Certification of Chief Executive Officer required by Rule 13(a)-14(a) under the Exchange Act
31.2*	Certification of Chief Financial Officer required by Rule 13(a)-14(a) under the Exchange Act
32.1*	Certification of Chief Executive Officer required by Rule 13a-14(b) under the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code
32.2*	Certification of Chief Financial Officer required by Rule 13a-14(b) under the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code
99.1*	Chongqing Alpha and Omega Semiconductor Limited Report of Independent Auditor
101.INS	XBRL Instance
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation
101.DEF	XBRL Taxonomy Extension Definition
101.LAB	XBRL Taxonomy Extension Labels
101.PRE	XBRL Taxonomy Extension Presentation

* Filed with this Annual Report on Form 10-K.

† Certain provisions in this exhibit have been omitted as confidential information.

†† Confidential treatment has been granted for certain information contained in this document pursuant to an order of the Securities and Exchange Commission. Such information has been omitted and filed separately with the Securities and Exchange Commission.

(+) Indicates management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

August 29, 2023

ALPHA AND OMEGA SEMICONDUCTOR LIMITED

By: _____ /s/ STEPHEN C. CHANG

Stephen C. Chang
Chief Executive Officer
(Principal Executive Officer)

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Stephen C. Chang and Yifan Liang, and each or any one of them, his or her true and lawful attorney-in-fact and agent, with full power of substitution and re-substitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this report, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his or her substitutes or substitute, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
/s/ <u>STEPHEN C. CHANG</u> Stephen C. Chang	Chief Executive Officer and Director (Principal Executive Officer)	August 29, 2023
/s/ <u>MIKE F. CHANG</u> Mike F. Chang, Ph.D.	Executive Chairman and Chairman of the Board (Principal Executive Officer)	August 29, 2023
/s/ <u>YIFAN LIANG</u> Yifan Liang	Chief Financial Officer and Corporate Secretary (Principal Financial Officer and Principal Accounting Officer)	August 29, 2023
/s/ <u>LUCAS S. CHANG</u> Lucas S. Chang	Director	August 29, 2023
/s/ <u>CLAUDIA CHEN</u> Claudia Chen	Director	August 29, 2023
/s/ <u>SO-YEON JEONG</u> So-Yeon Jeong	Director	August 29, 2023
/s/ <u>HANQING (HELEN) LI</u> Hanqing (Helen) Li	Director	August 29, 2023
/s/ <u>KING OWYANG</u> King Owyang	Director	August 29, 2023
/s/ <u>MICHAEL L. PFEIFFER</u> Michael L. Pfeiffer	Director	August 29, 2023
/s/ <u>MICHAEL J. SALAMEH</u> Michael J. Salameh	Director	August 29, 2023

Description of Share Capital

Alpha and Omega Semiconductor Ltd. (“we”, “our” or the “Company”) a limited liability exempted company incorporated under the laws of Bermuda on September 27, 2000 under the name Alpha and Omega Semiconductor Limited. We are registered with the Registrar of Companies in Bermuda under registration number 292750. Our registered office is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. Our memorandum of association sets forth the purposes of our company in paragraphs (b) to (n) and (p) to (t) of the Second Schedule to the Companies Act 1981 of Bermuda, as amended, or the Companies Act, which includes, among other things, designing and manufacturing of goods of all kinds, scientific research including the improvement, discovery and development of processes, inventions, patents and designs and the construction, maintenance and operation of laboratories and research center, all forms of engineering and acquisition or otherwise holding, selling, disposing of, or dealing in real property situated outside Bermuda and in personal property of all kinds. The rights of our shareholders are governed by Bermuda law, our memorandum of association and our amended and restated bye-laws (our “bye-laws”). The Companies Act differs in some material respects from laws generally applicable to U.S. corporations and their shareholders.

The following description of our share capital summarizes provisions of our memorandum of association and our bye-laws. This summary does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the provisions of our memorandum of association and bye-laws. The following summary is a description of the material terms of our share capital. The following summary also highlights material differences between Bermuda and Delaware corporate laws.

Share Capital

Our authorized share capital is divided into 50,000,000 common shares of \$0.002 each and 10,000,000 preference shares of par value \$0.002 per share.

Pursuant to our bye-laws, subject to the requirements of the Nasdaq Global Select Market (“Nasdaq”) and to any resolution of the shareholders to the contrary, our board of directors (our “Board of Directors”) is authorized to issue any of our authorized but unissued common shares. There are no limitations on the right of non-Bermudians or non-residents of Bermuda to hold or vote our shares.

Common Shares

All of our issued and outstanding common shares are fully paid.

If we issue any preference shares, the rights, preferences and privileges of holders of common shares will be subject to, and may be adversely affected by, the rights of the holders of our preference shares.

Voting

Holders of common shares have no pre-emptive, redemption, conversion or sinking fund rights. Holders of common shares are entitled to one vote on a vote by a show of hands irrespective of the number of shares he or she holds and one vote per share on a vote by way of poll on all matters submitted to a vote of holders of common shares. Unless a different majority is required by law or by our bye-laws, resolutions to be approved by holders of common shares require approval by a simple majority of votes cast at a meeting at which a quorum is present. There are no limitations on the right of non-Bermudians or non-residents of Bermuda to hold or vote our shares except as described herein.

In the event of our liquidation, dissolution or winding up, the holders of common shares are entitled to share equally and ratably in our assets, if any, remaining after the payment of all of our debts and liabilities, subject to any liquidation preference on any issued and outstanding preferred shares.

The Companies Act also provides that shareholders may take action by written resolution. Subject to the following, anything (except for the removal of an auditor before the expiration of the term of his or her office or director before the expiration of the term of his or her office) which may be done by resolution of the Company in general meeting or by resolution of a meeting of any class of the shareholders may, without a meeting, be done by resolution in writing signed by, or in the case of a shareholder that is a corporation whether or not a company within the meaning of the Companies Act, on behalf of, such number of shareholders who, at the date that the notice of resolution is given, represent not less than the

minimum number of votes as would be required if the resolution was voted on at a meeting of shareholders at which all shareholders entitled to attend and vote were present and voting.

Dividends

Pursuant to Bermuda law, we are restricted from declaring or paying a dividend or make a distribution out of contributed surplus if there are reasonable grounds for believing that (1) we are, or would after the payment be, unable to pay our liabilities as they become due, or (2) the realizable value of our assets would thereby be less than the aggregate of our liabilities, our issued share capital (the aggregate par value of our issued and outstanding common shares) and our share premium account (the aggregate amount paid for our common shares in excess of their par value).

The share capital represents the aggregate par value of the company's issued shares, and the share premium account represents the aggregate amount paid for issued shares over and above their par value. The excess of the consideration paid on the issue of shares over the aggregate par value of such shares must, except in certain limited circumstances, be credited to a share premium account. In the case of an exchange of shares, the excess value of the shares acquired over the nominal value of the shares being issued may be credited to a contributed surplus account of the issuing company. Share premium may be distributed in certain extremely limited circumstances, for example, to pay for unissued shares which may be distributed to shareholders as fully-paid bonus shares, but is otherwise subject to limitation and the provisions of the Companies Act relating to the reduction of share capital as if the share premium account were paid-up share capital of the company. In future years, the realizable value of our assets may decrease, thereby restricting our ability to pay dividends unless shareholders approve a resolution reducing our share premium account by transferring an amount to our contributed surplus account.

According to our bye-laws, we may cease sending checks for dividend entitlements or dividend warrants by post if such checks or warrants have been left uncashed on two consecutive occasions. However, we may exercise the power to cease sending checks for dividend entitlements or dividend warrants after the first occasion on which such a check or warrant is returned undelivered.

Under our bye-laws, each common share is entitled to dividends if and when dividends are declared by our board of directors, subject to any preferred dividend right of the holders of any preferred shares.

Listing

Our common shares are listed on Nasdaq under the symbol "AOSL."

Preferred Shares

Pursuant to Bermuda law and our bye-laws, our board of directors by resolution may establish one or more series of preferred shares having such number of shares, designations, dividend rates, relative voting rights, conversion or exchange rights, redemption rights, liquidation rights and other relative participation, optional or other special rights, qualifications, limitations or restrictions as may be fixed by the board without any further shareholder approval. The rights with respect to a series of preferred shares may be greater than the rights attached to our common shares. It is not possible to state the actual effect of the issuance of any preferred shares on the rights of holders of our common shares until our board of directors determines the specific rights attached to those preferred shares. The effect of issuing preferred shares could include one or more of the following:

- restricting dividends in respect of our common shares;
- diluting the voting power of our common shares or providing that holders of preferred shares have the right to vote on matters as a class;
- impairing the liquidation rights of our common shares; or
- delaying or preventing a change of control of our company.

We currently have authorized 10,000,000 preferred shares of par value \$0.002 per share. No preferred shares have been issued or outstanding as of June 30, 2023. We have no present plans to issue any preferred shares.

Variation of rights

Subject to the rights granted to holders of certain classes of shares, if at any time we have more than one class of shares, the rights attaching to any class, unless otherwise provided for by the terms of issue of the relevant class, may be varied with the sanction of a resolution passed by at least two-thirds of the votes cast at a general meeting of the relevant class of shareholders at which a quorum consisting of at least one person holding or representing no less than a majority of in nominal value of the issued shares of the relevant class is present. Our bye-laws specify that the creation or issue of shares ranking equally with existing shares will not, unless expressly provided by the terms of issue of existing shares, vary the rights attached to existing shares.

Meetings of shareholders

Our bye-laws and Bermuda law provide that any action to be taken by us requiring shareholder approval must be approved by a resolution passed by our shareholders at a general meeting of our shareholders. According to our bye-laws, shareholder resolutions cannot be passed by written consent of our shareholders without a meeting. Under Bermuda law, a company is required to convene at least one general meeting of shareholders in each calendar year. Bermuda law provides that a special general meeting of shareholders may be called by the board of directors of a company and must be called upon the requisition of shareholders holding not less than 10% of the paid-up capital of the company carrying the right to vote at general meetings. Bermuda law also requires that shareholders be given at least five days' advance notice of a general meeting, but the accidental omission to give notice to, or the non-receipt of a notice by, any person entitled to receive notice does not invalidate the proceedings at the meeting. Our bye-laws provide that our board of directors may convene an annual general meeting or a special general meeting.

Under our bye-laws, we must notify each shareholder entitled to vote at the annual general meeting or a special general meeting not less than five days prior to such meeting. The notice will state the date, time, place and the general nature of the business to be considered at the meeting.

Election and removal of directors

Unless otherwise determined by the Company in the general meeting, our bye-laws provide that our board shall consist of not less than two directors. There are no provisions relating to retirement of directors upon reaching any age limit.

The directors shall have the power from time to time and at any time to appoint any person as a director either to fill a casual vacancy on the board or, subject to authorization by the members in the general meeting, as an addition to the existing board but so that the number of directors so appointed shall not exceed any maximum number determined from time to time by the members in general meeting. Any director appointed by the board to fill a casual vacancy shall hold office until the next annual general meeting of members after his appointment and be subject to re-election at such meeting.

Our bye-laws provide that persons standing for election as directors at a duly constituted general meeting with requisite quorum are appointed by shareholders by a simple majority of the votes cast on the resolution.

A director may be removed with or without cause by a shareholder resolution which has been passed by at least two-thirds of the votes cast by the shareholders having a right to attend and vote at such meeting provided that notice of the shareholders meeting convened to remove the director is given to the director. The notice must contain a statement of the intention to remove the director and must be served on the director not less than 14 days before the meeting. The director is entitled to attend the meeting and be heard on the motion for his removal. **Proceedings of board of directors**

Our bye-laws provide that our business is to be managed and conducted by our board of directors. Bermuda law requires that our directors be individuals, but there is no requirement in our bye-laws or Bermuda law that directors hold any of our shares.

The remuneration of our directors is determined by our board of directors or the compensation committee, and there is no requirement that a specified number or percentage of "independent" directors must approve any such determination. Our directors may also be paid all travel, hotel and other expenses properly incurred by them in connection with our business or their duties as directors.

Our bye-laws provide that the board may from time to time at its discretion exercise all powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Act, issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Certain Corporate Anti-Takeover Protections

Certain provisions in our bye-laws may be deemed to have an anti-takeover effect and may delay, deter or prevent a tender offer or takeover attempt that a shareholder might consider to be in its best interests, including attempts that might result in a premium being paid over the market price for the common shares held by shareholders.

Pursuant to our bye-laws, our preferred shares may be issued from time to time, and the board of directors is authorized to determine the rights, preferences, privileges, qualifications, limitations and restrictions. See "—Preferred shares." The authorized but unissued common shares and our preferred shares will be available for future issuance by the board of

directors, subject to any resolutions of the shareholders. These additional shares may be utilized for a variety of corporate purposes, including future public offerings to raise additional capital, corporate acquisitions and employee benefit plans. The existence of authorized but unissued common shares and preferred shares could render more difficult or discourage an attempt to obtain control over us by means of a proxy contest, tender offer, amalgamation or otherwise.

In order to properly nominate a candidate for director or otherwise bring any other proposals, statements or resolutions at an annual general meeting of shareholders, a shareholder must provide us with advance notice in writing not less than 60 days nor more than 180 days prior to the meeting. The shareholder's notice must contain certain specified information with respect to the person nominated as director and, if applicable, any other material information relating to the proposal to be considered at the meeting. In addition, our by-laws provide that shareholder resolutions cannot be passed by written consent of our shareholders without a meeting.

SUBSIDIARIES OF THE REGISTRANT

Subsidiary Name	Incorporated Location	Percentage Owned
Alpha and Omega Semiconductor Incorporated	California, United States	100% owned by AOS
Alpha and Omega Semiconductor (Cayman) Ltd.	Cayman	100% owned by AOS
Alpha and Omega Semiconductor (Shanghai) Co., Ltd.	China	100% owned by AOS
Alpha & Omega Semiconductor (Shenzhen) Limited	China	100% owned by AOS
Alpha & Omega Semiconductor (Hong Kong) Limited	Hong Kong	100% owned by AOS
Alpha & Omega Semiconductor (Macau), Ltd.	Macau	100% owned by AOS
Alpha & Omega Semiconductor (Taiwan) Limited	Taiwan	100% owned by AOS
Alpha & Omega Semiconductor (Germany) GmbH	Germany	100% owned by AOS
Agape Package Manufacturing Ltd.	Cayman	100% owned by AOS
Agape Limited	Hong Kong	100% owned by AOS
Jireh Semiconductor Incorporated	Oregon, United States	100% owned by AOS
Chongqing Alpha and Omega Semiconductor Limited	Chongqing, China	42% owned by AOS
Alpha and Omega Semiconductor International LP	Canada	100% owned by AOS
Alpha and Omega Semiconductor (Delaware) LLC	Delaware, United States	100% owned by AOS
AOSI LLC	Delaware, United States	100% owned by AOS
Alpha and Omega Electronic Technology (Shanghai) Co., Ltd.	China	100% owned by AOS
Alpha and Omega Semiconductor (India) Limited	India	100% owned by AOS

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-269638, 333-261036, 333-228297, 333-207987, 333-190935, 333-186480, 333-180126, 333-172173, and 333-166403) of Alpha and Omega Semiconductor Limited of our report dated August 29, 2023, relating to the consolidated financial statements, the financial statement schedule, and the effectiveness of internal control over financial reporting of Alpha and Omega Semiconductor Limited, appearing in this Annual Report on Form 10-K of Alpha and Omega Semiconductor Limited for the year ended June 30, 2023.

/s/ BAKER TILLY US, LLP
Mountain View, California

August 29, 2023

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Alpha and Omega Semiconductor Limited
Sunnyvale, California

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-269638, 333-261036, 333-228297, 333-207987, 333-190935, 333-186480, 333-180126, 333-172173, and 333-166403) of Alpha and Omega Semiconductor Ltd. of our report dated September 19, 2022, relating to the consolidated financial statements and schedule, which appears in this Form 10-K.

/s/ BDO USA, P.A.
BDO USA, P.A.
San Jose, California

August 29, 2023

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Stephen C. Chang, certify that:

1. I have reviewed this report on Form 10-K of Alpha and Omega Semiconductor Limited;
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: August 29, 2023

/s/ Stephen C. Chang

Stephen C. Chang
Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Yifan Liang, certify that:

1. I have reviewed this report on Form 10-K of Alpha and Omega Semiconductor Limited;
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: August 29, 2023

/s/ YIFAN LIANG

Yifan Liang
Chief Financial Officer
and Corporate Secretary

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

I, Stephen C. Chang, the 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 Annual Report of the Company on Form 10-K for the fiscal year ended June 30, 2023 (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: August 29, 2023

/s/ Stephen C. Chang

Stephen C. Chang
Chief Executive Officer

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

I, Yifan Liang, the 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 Annual Report of the Company on Form 10-K for the fiscal year ended June 30, 2023 (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: August 29, 2023

/s/ YIFAN LIANG

Yifan Liang
Chief Financial Officer
and Corporate Secretary

Chongqing Alpha and Omega Semiconductor Limited
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REPORT OF INDEPENDENT AUDITOR

The Board of Directors of Chongqing Alpha and Omega Semiconductor Limited

Opinion

We have audited the financial statements of Chongqing Alpha and Omega Semiconductor Limited ("the Company") which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of operations, equity and cash flows for the year ended December 31, 2022 and one month ended December 31, 2021, and the related notes to the financial statements (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the year ended December 31, 2022 and one month ended December 31, 2021 in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

The financial statements of the Company have been prepared with the purpose of providing financial information to Alpha and Omega Semiconductor Limited ("AOS") to assist AOS in satisfying its reporting responsibilities under Regulation S-X, Rule 3-09.

Convenience Translation

Our audits also comprehended the translation of Renminbi amounts into United States dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1(d) to the financial statements. Such United States dollar amounts are presented solely for the convenience of readers outside the People's Republic of China.

Responsibilities of management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

/s/ Deloitte Touche Tohmatsu Certified Public Accountants LLP

Shanghai, the People's Republic of China

August 23, 2023

CHONGQING ALPHA AND OMEGA SEMICONDUCTOR LIMITED
BALANCE SHEETS
(In thousands)

	Notes	December 31,		
		2021	2022	
		RMB	RMB	US\$ (Note 1(d))
ASSETS				
Current assets:				
Cash and cash equivalents	3	132,256	302,217	43,393
Accounts receivable, net		961	2,962	425
Amounts due from related parties, net	14	313,429	241,954	34,741
Inventories	4	326,795	384,916	55,267
Prepaid and other current assets	5	32,253	22,792	3,273
Total current assets		805,694	954,841	137,099
Property, plant and equipment, net	6	1,816,887	1,753,230	251,734
Land use right, net		54,332	53,122	7,628
Intangible assets, net	7	400,023	340,565	48,899
Operating lease right-of-use assets, net	10	74,314	76,993	11,055
Restricted cash - long-term		14,000	14,000	2,010
Other long-term assets		5,847	64,359	9,241
Total non-current assets		2,365,403	2,302,269	330,567
TOTAL ASSETS		3,171,097	3,257,110	467,666
LIABILITIES AND EQUITY				
Current liabilities:				
Accounts payable		191,779	96,698	13,884
Amounts due to related parties	14	489,159	96,376	13,838
Accrued liabilities	8	142,444	219,678	31,542
Short-term debts	9	291,994	451,335	64,804
Finance lease liabilities		108,000	28,000	4,020
Operating lease liabilities	10	9,760	11,625	1,669
Total current liabilities		1,233,136	903,712	129,757
Long-term debts	9	329,363	184,623	26,508
Finance lease liabilities - long-term		28,000	-	-
Operating lease liabilities - long-term	10	65,380	66,600	9,564
Total non-current liabilities		422,743	251,223	36,072
TOTAL LIABILITIES		1,655,879	1,154,935	165,829
Commitments and contingencies (Note 15)				
Equity:				
Paid-in capital	11	2,525,474	2,817,675	404,571
Additional paid-in capital	11	12,466	308,567	44,305
Accumulated deficit		(1,022,722)	(1,024,067)	(147,039)
TOTAL EQUITY		1,515,218	2,102,175	301,837
TOTAL LIABILITIES AND EQUITY		3,171,097	3,257,110	467,666

The accompanying notes are an integral part of the financial statements.

CHONGQING ALPHA AND OMEGA SEMICONDUCTOR LIMITED
STATEMENTS OF OPERATIONS
(In thousands)

	Notes	Period from December 1, 2021 to December 31,2021	Year ended December 31, 2022	
		RMB	RMB	US\$ (Note 1(d))
Revenue (include RMB 117,272 and RMB 1,239,221 from related parties for the one month ended December 31, 2021 and the year ended December 2022, respectively)		123,137	1,364,784	195,960
Cost of goods sold		125,950	1,311,570	188,319
Gross (loss) profit		(2,813)	53,214	7,641
Operating expenses:				
Research and development		302	22,710	3,261
Selling, general and administrative		8,518	34,524	4,957
Other operating income, net		-	(20,555)	(2,951)
Total operating expenses		8,820	36,679	5,267
Operating (loss) income		(11,633)	16,535	2,374
Interest expense, net		(3,485)	(32,659)	(4,690)
Other income, net		291	14,779	2,123
Net loss before income taxes		(14,827)	(1,345)	(193)
Income tax expense	13	-	-	-
Net loss		(14,827)	(1,345)	(193)

The accompanying notes are an integral part of the financial statements.

CHONGQING ALPHA AND OMEGA SEMICONDUCTOR LIMITED
STATEMENTS OF EQUITY
(In thousands)

	Paid-in capital	Additional paid-in capital	Accumulated deficit	Total	
	RMB	RMB	RMB	RMB	US\$ (Note 1(d))
Balance at December 1, 2021	2,525,474	12,466	(1,007,895)	1,530,045	219,689
Net loss	-	-	(14,827)	(14,827)	(2,129)
Balance at December 31, 2021	2,525,474	12,466	(1,022,722)	1,515,218	217,560
Issuance of ordinary shares to new investors	212,899	296,101	-	509,000	73,084
Issuance of restricted shares to employees	79,302	-	-	79,302	11,386
Net loss	-	-	(1,345)	(1,345)	(193)
Balance at December 31, 2022	2,817,675	308,567	(1,024,067)	2,102,175	301,837

The accompanying notes are an integral part of the financial statements.

CHONGQING ALPHA AND OMEGA SEMICONDUCTOR LIMITED
STATEMENTS OF CASH FLOWS
(In thousands)

	Period from December 1, 2021 to December 31, 2021	Year ended December 31, 2022	
	RMB	RMB	US\$ (Note 1(d))
Cash flows from operating activities			
Net loss	(14,827)	(1,345)	(193)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Allowance for credit losses	308	245	35
Inventory write-down	422	62	9
Impairment of property, plant and equipment	4,814	4,933	708
Noncash lease expenses	536	8,615	1,237
Depreciation and amortization	18,225	213,416	30,643
Loss on disposal of property, plant and equipment	4,479	64	9
Foreign currency exchange loss	-	3,280	471
<i>Changes in assets and liabilities:</i>			
Accounts receivable	271	(2,004)	(288)
Amounts due from related parties, net	6,891	54,390	7,809
Inventories	10,005	(58,183)	(8,354)
Prepayments and other current assets	2,618	12,152	1,745
Accounts payable	(4,724)	(95,080)	(13,652)
Amounts due to related parties	16,860	(303,120)	(43,523)
Accrued liabilities	219	32,552	4,674
Operating lease liabilities	276	(7,000)	(1,005)
Net cash provided by (used in) operating activities	46,373	(137,023)	(19,675)
Cash flows from investing activities:			
Purchase of property, plant and equipment	(5,644)	(205,119)	(29,452)
Disposal of property and equipment	-	126	18
Net cash used in investing activities	(5,644)	(204,993)	(29,434)
Cash flows from financing activities:			
Proceeds from bank borrowings	96	400,000	57,433
Repayments of bank borrowings	-	(399,213)	(57,320)
Principal payments on financing leases	(27,000)	(108,000)	(15,507)
Proceeds from issuance of restricted shares to employees	-	79,302	11,386
Proceeds from issuance of ordinary shares to new investors	-	509,000	73,084
Net cash (used in) provided by financing activities	(26,904)	481,089	69,076
Effect of exchange rate changes on cash, cash equivalents and restricted cash	-	30,888	4,436
Net increase in cash, cash equivalents and restricted cash	13,825	169,961	24,403
Cash, cash equivalents and restricted cash at the beginning of the year	132,431	146,256	21,000
Cash, cash equivalents and restricted cash at end of the year	146,256	316,217	45,403
Supplemental disclosures of cash flow information:			
Cash and cash equivalents	132,256	302,217	43,393
Restricted cash, non-current	14,000	14,000	2,010
Total cash and cash equivalents and restricted cash	146,256	316,217	45,403
Cash paid for interest	8,515	33,365	4,791
Supplemental disclosures of non-cash investing and financing information:			
Property, plant and equipment purchased during the current period but not yet paid	2,206	64,803	9,305

The accompanying notes are an integral part of the financial statements.

CHONGQING ALPHA AND OMEGA SEMICONDUCTOR LIMITED
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THE YEAR ENDED DECEMBER 31, 2022
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1. The Company and Significant Accounting Policies

(a) History and Principal Activities

Chongqing Alpha and Omega Semiconductor Limited ("CQAOS", "the Company") was incorporated in Chongqing, China on April 22, 2016. It was invested by Alpha and Omega Semiconductor Limited ("AOS") with two investment funds owned by the Municipality of Chongqing (the "Chongqing Funds") by entering into a joint venture contract, for the purpose of constructing and operating a power semiconductor packaging, testing and wafer fabrication facility in the Liangjiang New Area of Chongqing, the People of Republic China.

(b) Basis of presentation

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP").

(c) Use of Estimates

The preparation of the 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 financial statements will be affected. On an ongoing basis, the Company evaluates the estimates, judgments and assumptions including principal-versus-agent determination for revenue recognition, allowance for credit loss, inventory reserves, warranty accrual, income taxes, leases, recoverability of and useful lives for property, plant and equipment and intangible assets.

(d) Foreign currency transaction and translation

Foreign currency transactions are translated into the functional currencies using the exchange rates prevailing at the beginning of the month. Foreign exchange gains and losses, resulting from the settlement of such transactions and from the re-measurement of monetary assets and liabilities denominated in foreign currencies using exchange rates at month end, are recognized in the statements of operations.

The Company's reporting currency and functional currency is Renminbi ("RMB"). Translations of balances in the balance sheets, statements of operations and statements of cash flows from RMB into U.S. Dollars ("US\$") as of and for one month ended December 31, 2022 are solely for the convenience of the reader and were calculated at the rate of US\$1.00 = RMB6.9646 representing the average buying and selling spot rate set forth in the statistical release of the China Foreign Exchange Trade System on December 31, 2022.

(e) Cash, cash equivalents and restricted cash

Cash and cash equivalents primarily consist of cash on hand and short-term bank deposits with original maturities of three months or less. Cash equivalents are highly liquid investments with stated maturities of three months or less as of the dates of purchase. The carrying amounts reported for cash and cash equivalents are considered to approximate fair values based upon their short maturities.

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1. The Company and Significant Accounting Policies - continued

(e) Cash, cash equivalents and restricted cash - continued

As a condition of the loan arrangements, the Company is required to keep a compensating balance at the issuing bank. The balance has been excluded from the Company's cash and cash equivalents balance and are classified as restricted cash in the Company's balance sheets.

(f) Current expected credit loss

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326). Topic 326 adds to U.S. GAAP the current expected credit loss ("CECL") model, a measurement model based on expected losses rather than incurred losses. Before adoption of CECL model, the allowance for doubtful accounts is based on assessment of the collectability of receivables considering factors including aging of the receivables, the customers' payment history, creditworthiness, financial conditions and current economic trends. The Company adopted the CECL model since July 1, 2021 and the estimate of expected credit losses will be (1) recognized immediately upon either origination or acquisition and (2) adjusted in each subsequent reporting period. The allowance for credit loss is based on assessment of the collectability of accounts receivable from customers and amount due from related parties. The Company reviews the allowance by considering factors such as historical collection experience, credit quality, and current economic conditions that may affect a customer's ability to pay. The Company writes off a receivable and charges against its recorded allowance when it has exhausted its collection efforts without success.

(g) Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value hierarchy is based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value, which are the following:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

(h) Fair Value of Financial Instruments and others

The fair value of cash equivalents is based on observable market prices and have been categorized in Level 1 in the fair value hierarchy. Cash equivalents consist primarily of short-term bank deposits. The carrying values of financial instruments such as cash and cash equivalents, accounts receivable and accounts payable approximate their carrying values due to their short-term maturities. The carrying value of the company's debt is considered a reasonable estimate of fair value which is estimated by considering the current rates available to the Company for debt of the same remaining maturities, structure and terms of the debts.

The Company measures certain long-lived assets or long-term investments at fair value on a non-recurring basis in periods after initial measurement in circumstances when the fair value of such assets is below its recorded cost and impairment is required. Fair value of the property and equipment in impairment testing were determined by the Company based on the income approach using the discounted cash flows associated with the underlying assets, which incorporated certain assumptions including projected revenue, growth rates and projected operating costs, expectation of management and projected trends of current operating results.

The Company recorded impairment charges of RMB4,814 and RMB4,933(US\$708) for certain property, plant and equipment for the one month ended December 31, 2021 and the year ended December 31, 2022, respectively. The impairment was recorded in cost of goods sold in its statements of operations.

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1. The Company and Significant Accounting Policies - continued

(i) Inventories

The Company carries inventories at the lower of cost or net realizable value. Cost of inventory includes semiconductor wafer and raw materials, labour, depreciation expenses and other manufacturing expenses and overhead, and packaging and testing fees paid to third parties if subcontractors are used. Valuation of inventories are based on the Company's periodic review of inventory quantities on hand as compared with its sales forecasts, historical usage, aging of inventories, production yield levels and current selling prices. If actual market conditions are less favourable than those forecasted by management, additional future inventory write-downs may be required. Adjustments to inventory once established are not reversed until the related inventory has been sold or scrapped.

(j) Property, plant and equipment, net

Property, plant and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditures that are directly attributable to the acquisition of the items and the costs incurred to make the assets ready for their intended use.

Depreciation is provided for on a straight-line basis over the estimated useful lives of the related assets as follows:

	Useful life
Building	20 ~ 30 years
Manufacturing machinery and equipment	10 ~ 15 years
Facility Machinery and Equipment	10 ~ 15 years
Software	3 ~ 10 years
Office furniture and equipment	3 ~ 5 years
Vehicle and other fixed asset	4 years
Tooling and instrument	5 years

Construction in progress represent equipment received but the necessary installation has not been fully performed or building construction and leasehold improvements that have been started but not yet completed. Equipment and construction in progress are stated at cost and transferred to respective asset class when fully completed and ready for their intended use.

Software is externally purchased which is amortized over three to ten years on a straight-line basis. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized as selling, general and administrative expenses in the statements of operations. Costs of maintenance and repairs that do not improve or extend the lives of the respective assets are expensed as incurred.

(k) Land use right, net

The land use rights represent the operating lease prepayments for the rights to use the land in the PRC under Accounting Standards Codification Topic 842, *Leases* ("ASC 842"), which are amortized on a straight-line basis over the remaining term of the land use right. In March 2017, The Company acquired the land use right from the PRC government with a consideration of RMB60,178 (US\$9,447). The land use right will expire on November 30, 2066. Amortization expense of land use rights for one month ended December 31, 2021 and the year ended December 31, 2022 amounted to RMB101 and RMB1,210 (US\$174) respectively.

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1. The Company and Significant Accounting Policies - continued

(l) Impairment of Long-lived Assets

Long-lived assets are reviewed for impairment in accordance with authoritative guidance for impairment or disposal of long-lived assets. Long-lived assets are reviewed for events or changes in circumstances, which indicate that their carrying value may not be recoverable. Long-lived assets with definite lives are not impaired unless undiscounted cash flow is less than the carrying value, at which time impairment is recorded for the difference between carrying value and fair value. For one month ended December 31, 2021 and the year ended December 31, 2022, RMB4,814 and RMB4,933 (US\$708) was recognized as impairment loss and recoded in cost of goods sold, respectively.

(m) 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 related subsidy, as well as other business expansion credits. Grants received as incentives for conducting business in certain local districts with no performance obligation or other restriction as to the use are recognized when cash is received. Grants received with government specified performance obligations are recognized when all the obligations have been fulfilled and cash is received. If such obligations are not satisfied, the Company may be required to refund the subsidy. The Company records such grants either as a reduction of the interest expenses, related expense, or as other income depending upon the nature of the grant. For the year ended December 31, 2022, the Company reduced interest expense by RMB10,215(US\$1,447), reduced general and administrative by RMB1,698 (US\$244), and recorded other income of RMB10,666 (US\$1,531) upon receipt of cash from government.

(n) Revenue Recognition

The Company's revenue is derived from the sales of silicon chips and wafer, providing assembly and testing ("A&T") service, and other revenue including sales of raw materials and scrapped materials.

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 customer, and service revenue once rendered. The Company presents revenue net of sales taxes. The standard payment terms range from 30 to 90 days.

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 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.

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1. The Company and Significant Accounting Policies - continued

(n) Revenue Recognition - continued

The following is a summary of revenue by type:

	Period from December 1, 2021 to December 31,2021	Year ended December 31, 2022	
	RMB	RMB	US\$
Product	116,982	1,334,522	191,615
Service	6,155	11,499	1,651
Others	-	18,763	2,694
Total	123,137	1,364,784	195,960

(o) Cost of goods sold

Cost of goods sold primarily consists of costs associated with semiconductor wafers, packaging and testing, shipping and handling, personnel, overhead attributable to manufacturing, impairment loss on manufacturing equipment, operations and procurement, and costs associated with yield improvements, capacity utilization, warranty and valuation of inventories.

(p) Leases

The Company determines if an arrangement is a lease at inception. Right-of-use ("ROU") assets and lease liabilities are recognized for all leases 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. 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.

The Company classifies its leases in to operating lease and finance lease. Operating leases are included in operating lease ROU assets and operating lease liabilities on the Company's balance sheets. Finance lease are included in property, plant and equipment and finance lease liabilities on the balance sheets. Operating lease expense is recognized on a straight-line basis over the lease term, lease liability is amortized using the effective interest method over the lease period. The Company does not record leases on the balance sheet with a term of one year or less.

The Company leased certain idle manufacture equipment to related parties. The Company determines if an arrangement is a lease at inception. All leases are classified as operating leases and rents are recognized on a straight-line basis over the terms of the leases when collectability is probable, and the lessee has taken possession or controls the physical use of the leased equipment. The leased equipment is recognized in the statement of balance sheets as property, plant and equipment, which lease income, net of depreciation expenses of the leased equipment, is recorded as other operating income, net in the statements of operations.

(q) Product Warranty

The Company provides a standard two-year warranty for the products from the date of purchase by the customers. The Company accrues for estimated warranty costs at the time revenue is recognized. The Company's warranty obligation is affected by product failure rates, labor and material costs for replacing defective products, related freight costs for failed parts and other quality assurance costs. The Company monitors its product returns for warranty claims and maintains warranty reserves based on historical experiences and anticipated warranty claims known at the time of estimation.

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1. The Company and Significant Accounting Policies - continued

(r) Provision for Income Taxes

Income tax expense or benefit is based on income or loss before taxes. Deferred tax assets and liabilities are recognized principally for the expected tax consequences of temporary differences between the tax basis of assets and liabilities and their reported amounts.

Significant management judgment is required in determining whether deferred tax assets will be realized in full or in part. When it is more likely than not that all or some portion of specific deferred tax assets such as net operating losses or research and experimentation tax credit carry-forwards will not be realized, a valuation allowance must be established for the amount of the deferred tax assets that cannot be realized. The Company considers all available positive and negative evidence when assessing whether it is more likely than not that deferred tax assets are recoverable. The Company considers evidence such as our past operating results, the existence of cumulative losses in recent years and our forecast of future taxable income.

The Financial Accounting Standards Board ("FASB") issued guidance which clarifies the accounting for income taxes by prescribing a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely to be realized upon ultimate settlement. Although the guidance on the accounting for uncertainty in income taxes prescribes the use of a recognition and measurement model, the determination of whether an uncertain tax position has met those thresholds will continue to require significant judgment by management.

(s) Share-based compensation

The Company grants restricted shares to the certain employees ("Share-based Awards"). The Company accounted for the Share-based Awards in accordance with ASC 718 Compensation—Stock Compensation. Vesting of Share-based Awards is subject to certain service and performance conditions. Employees are not entitled to transfer or redeem the share until twelve months after the Company completes initial public offering ("IPO condition"). Share-based Awards are measured at the grant date fair value using market approach and share-based compensation expenses are amortized on a straight-line basis over the service term but will not be recognized before the IPO condition is satisfied, at which time the cumulatively vested amount will be recognized.

2. Concentration of Credit Risk and Significant Customers

The Company manages its credit risk associated with exposure to customers on outstanding accounts receivable through the application of credit approvals, credit ratings and other monitoring procedures.

Credit sales, which are mainly on credit terms of 30 to 90 days, are only made to customers who meet the Company's credit standards, while sales to new customers or customers with low credit ratings are usually made on an advance payment basis. The Company considers its financial assets to be of good credit quality because its 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 customers, and regularly reviews their financial positions, where available.

The only customer whose revenue or accounts receivable balances were 10% or higher than the respective total amounts is the Company's related party, AOS Group. See note 14 for details of balance and transaction with AOS Group.

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3. Cash and cash equivalents

	As of December 31,		
	2021	2022	
	RMB	RMB	US\$
Cash at bank	132,256	302,217	43,393
Denominated in:			
US\$	66,687	101,561	14,582
RMB	65,569	200,656	28,811

Certain cash and bank balances denominated in US\$ were deposited with banks in the PRC. The conversion of these US\$ denominated balances into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

4. Inventories

	As of December 31,		
	2021	2022	
	RMB	RMB	US\$
Raw materials	159,915	222,962	32,014
Work in progress	117,479	116,948	16,792
Finished goods	49,401	45,006	6,461
Inventories	326,795	384,916	55,267

The Company write-down inventory for any excess or obsolete inventories or when the Company believe that the net realizable value of inventories is less than the carrying value. For the year ended December 31, 2022, the Company wrote-down inventory of RMB62 (US\$9), respectively.

5. Prepaid and other current assets

	As of December 31,		
	2021	2022	
	RMB	RMB	US\$
Prepaid maintenance	7,005	2,508	360
Prepayment to supplier	5,567	4,629	665
VAT receivable	13,077	7,859	1,128
Others	6,604	7,796	1,120
Prepaid and other current assets	32,253	22,792	3,273

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6. Property, plant and equipment, net

Property and equipment, net consist of the following:

	As of December 31,		
	2021	2022	
	RMB	RMB	US\$
Building	368,556	372,042	53,419
Manufacturing machinery and equipment	1,685,798	1,759,122	252,580
Equipment and tooling	256,330	256,972	36,897
Software	37,970	45,561	6,542
Office furniture and equipment	22,178	25,628	3,680
Vehicle and other fix asset	7,481	8,209	1,179
Long-term deferred expense	-	294	42
less: accumulated depreciation	(694,444)	(847,777)	(121,727)
Impairment loss	(4,814)	(9,746)	(1,399)
Equipment and construction in progress	137,831	142,925	20,521
Property and equipment, net	1,816,887	1,753,230	251,734

Depreciation expenses for the one month ended December 31, 2021 and year ended December 31, 2022 was RMB 13,170 and RMB153,958 (US\$22,106) respectively. For the one month ended December 31, 2021 and the year ended December 31, 2022, RMB4,814 and RMB4,933 (US\$708) was recognized as impairment loss on manufacturing equipment, respectively.

7. Intangible assets, net

Intangible assets, net consist of the following:

	As of December 31,		
	2021	2022	
	RMB	RMB	US\$
Patents and technology rights	571,242	571,243	82,020
Less: accumulated amortization	(171,219)	(230,678)	(33,121)
Intangible assets, net	400,023	340,565	48,899

The Company amortizes its intangible assets of patents and technology rights relating to power device semiconductors and wafer production over their estimated useful lives of 7 to 15 years. Amortization expenses for the one month ended December 31, 2021 and the year ended December 31, 2022 were RMB 4,955 and RMB 59,458 (US\$8,537), respectively.

Amortization expenses of the above intangible assets are expected to be approximately RMB59,458, RMB59,458, RMB59,458, RMB59,458 and RMB 102,733 for the years ending December 31, 2023, 2024, 2025, 2026, 2027 and thereafter, respectively.

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8. Accrued Liabilities

	As of December 31,		
	2021	2022	
	RMB	RMB	US\$
Accrued compensation and benefits	57,507	66,867	9,601
Accrued property, plant and equipment	34,853	79,535	11,420
Warranty accruals	11,840	13,806	1,982
Accrued interest	1,918	2,334	335
Advance from customers	5,338	13,846	1,988
Others	30,988	43,290	6,216
Accrued Liabilities	142,444	219,678	31,542

9. Bank borrowings

Short-term debts

On June 29, 2021, The Company entered into a one-year credit facility agreement with China Citic Bank to borrow a maximum of US\$7.7 million and has fully drawn-down the facility at interest rate of 3.49% per annum. Interest payments are due on the 20th of each quarter starting September 20, 2021, and the entire principal amount is due on June 29, 2022. The borrowings have been repaid in June 2022.

On December 27, 2022, the Company entered into a one-year credit facility agreement with China Citic Bank to borrow a maximum of RMB100 million at a floating interest rate based on one-year Loan Prime Rate in China ("LPR") minus 1.7%. The Company has drawn-down RMB100 million at interest rate of 3.48% per annum. Interest payments are due on the 20th of each quarter starting March 20, 2023, and the entire principal is due on December 26, 2023. The outstanding balance of this loan was RMB 100 million on December 31, 2022.

On April 14, 2021, the Company entered into a credit facility with China Everbright Bank in China to borrow a maximum of RMB100 million. The borrowing can be in either RMB or US\$ and be repaid in the same currency. The loan consists of RMB50 million for working capital borrowings in RMB and RMB50 million for trade financing in US\$. The loan is collateralized by eligible accounts receivable of RMB50 million. On April 19, 2021, the Company borrowed RMB50 million for working capital borrowing, 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. Additionally, the Company drew-down US\$7.6 million for the trade financing purpose at interest rate of 2.7% in 2021. As of December 31, 2022, all of these loans have been repaid.

On July 19, 2022, The Company entered into a credit facility agreement with The Export-Import Bank of China to borrow a maximum of RMB 200 million. This loan is secured by the buildings and certain equipment owned by the Company with a carrying value of RMB566.04 million as of December 31, 2022. This loan shares collateral rights with that rent factoring of RMB379 million under YinHai financing lease signed on May 9, 2018 and the RMB 200 million long-term loan signed on March 12, 2019 with The Export-Import Bank of China. On July 22, 2022, the Company drew-down RMB200 million for one year at an interest rate of 3.1% per annum and the outstanding balance of it was RMB 200 million (US\$28.72 million) as of December 31, 2022.

Long-term debts

On April 26, 2020, the Company entered into a credit facility 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 RMB250 million. The obligation under the loan agreement is secured by certain assets of the Company with a carrying value of RMB1060.99 million as of December 31, 2022. This loan shares collateral rights with the US\$24 million long-term loan signed on December 18, 2019 with China Development Bank. Beginning December 18, 2020, the Company is required to make consecutive semi-annual payments of principal until December 8, 2024. Interest payment is due on March 20, June 20, September 20 and December 20 of each year based on one-year LPR plus 1.3%. The Company drew-down RMB250 million in April 2020 at interest rate of 5.1% per annum. As of December 31, 2022, the outstanding balance of the loan was RMB145 million.

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9. Bank borrowings - continued

Long-term debts - continued

On December 18, 2019, the Company entered into a loan agreement with China Development Bank in the amount of US\$24.0 million. The obligation under the loan agreement is secured by certain assets of the Company with a net carrying value of RMB1060.99 million as of December 31, 2022. This loan shares collateral rights with the RMB 250 million long-term loan signed on April 26, 2020 with China Development Bank. Beginning December 18, 2020, The Company will make consecutive semi-annual payments of principal until December 8, 2024. The interest is accrued based on the London Inter-Bank Offered Rate ("LIBOR") of 6 months plus 2.8%. The interest is required to be paid on March 21 and September 21 each year. As of December 31, 2022, the outstanding balance of the loan was US\$11.2 million (RMB78 million) at weighted average interest rate of 4.62% per annum.

On March 12, 2019, the Company entered into a credit facility agreement with The Export-Import Bank of China in the aggregate principal amount of RMB200 million. The loan will mature on February 20, 2025. The Company drew-down the whole facility in 2019. The loan withdraw window expired on February 28, 2020. The interest is accrued based on the five-year LPR multiplied by 1.1. 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 Company with a carrying value of RMB566.04 million as of December 31, 2022. This loan shares collateral rights with that rent factoring of RMB379 million under YinHai financing lease signed on May 9, 2018 and the RMB200 million short-term loan signed on July 19, 2022 with The Export-Import Bank of China. As a condition of the loan arrangements, RMB14 million (approximately US\$2.0 million) of cash is held as restricted cash by the Company as a compensating balance at the Company's bank until the principal is paid. As of December 31, 2022, the outstanding balance of the loan was RMB 115.0 million at weighted average interest rate of 5.19% per annum.

On December 31, 2021, the Company entered into a credit facility agreement with China Merchants Bank to borrow a maximum of RMB100 million for three years. The maximum interest rate is based on the LPR plus 1.4%. The loan requires quarterly interest payments. On February 11, 2022, the Company drew-down RMB100 million at interest rate of 5.1% per annum. The entire principal is due on December 30, 2024. As of December 31, 2022, the loan has been fully repaid.

Financing lease

On May 9, 2018 (the "Effective Date"), the 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 agree to provide an aggregate of RMB400 million of financing to the Company (the "Lease Financing"). In exchange for the Lease Financing, the Company agrees to transfer title of its assembly and testing equipment to the Lenders, and the Lenders lease such equipment to the Company under a five-year lease arrangement, pursuant to which the 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 five-year LPR multiplied by 1.15. Under the Agreements, at the end of the five-year lease term, the Lenders agree to sell such equipment back to the Company for a nominal amount RMB1. The Company's obligations under the Lease Financing that rent factoring of RMB379 million are secured by the land and building owned by the Company (the "Collateral"). The lease financing shares the collateral rights both with the loan of RMB 200 million signed on March 12, 2019 and the loan of RMB 200 million signed on July 19, 2022 with The Export-Import Bank of China. The proceeds from the Lease Financing has been used primarily for the acquisition and installation of the 12-inch fabrication equipment and other expenses of the 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 are not limited to, failure to make payments and breach of material terms under the Agreements. On June 28, 2020, the parties entered into a modification to this agreement as a result of a change in the bank reference rate, pursuant to which the interest rate was changed to be the five-year LPR plus 0.8125%. Other terms of this agreement remain the same. As of December 31, 2022, the outstanding balance of the Lease Financing of RMB28.0 million at weighted average interest rate of 5.43% per annum. The balance was recorded as finance lease liabilities in current liabilities.

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9. Bank borrowings - continued

Financing lease - continued

As of December 31, 2022, maturities of short-term debts and long-term debts are as follows:

December 31,	RMB	US\$
2023	452,788	65,013
2024	162,216	23,291
2025	23,000	3,303
2026 and thereafter	-	-
Total principal of debt	638,004	91,607
Less: debt issuance costs	(2,046)	(294)
Total principal of debt, less debt issuance costs	635,958	91,313

	Short-Term Debt		Long-Term Debt		Total	
	RMB	US\$	RMB	US\$	RMB	US\$
Principal amount	452,788	65,013	185,216	26,594	638,004	91,607
Less: debt issuance costs	(1,453)	(209)	(593)	(86)	(2,046)	(294)
Total	451,335	64,804	184,623	26,508	635,958	91,313

10. Lease

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 ROU assets, operating lease liabilities and operating lease liabilities - long-term on the Company's balance sheets. Finance leases are included in property, plant and equipment, finance lease liabilities and finance lease liabilities-long-term on the 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 facilities, employee apartments, and gas tank equipment. 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 YinHai Leasing Company. The Company does not record leases on the balance sheet with a term of one year or less. Total lease expense related to short-term leases was insignificant for the year ended December 31, 2022 and one month ended December 31, 2021.

The components of the Company's operating and finance lease expenses are as follows for the period presented:

	Period from December 1, 2021 to December 31, 2021	Year ended December 31, 2022	
	RMB	RMB	US\$
Operating leases:			
Fixed rent expense	536	11,582	1,663
Finance lease:			
Amortization of equipment	3,484	36,092	5,182
Interest	726	5,030	722
Total lease expenses	4,746	52,704	7,567

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10. Lease - continued

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

	As of December 31,		
	2021	2022	
	RMB	RMB	US\$
Operating leases:			
ROU assets associated with operating leases	74,314	76,993	11,055
Finance Lease:			
Property, plant and equipment, gross	552,078	552,078	79,269
Accumulated depreciation	373,169	409,261	58,763
Property and equipment, net	178,909	142,818	20,506
Weighted average remaining lease term (in years)			
Operating leases	10.82	9.80	9.80
Finance leases	1.25	0.25	0.25
Weighted average discount rate			
Operating leases	5.39%	5.34%	5.34%
Finance leases	5.46%	5.43%	5.43%

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

	Period from December 1, 2021 to December 31, 2021	Year ended December 31, 2022	
	RMB	RMB	US\$
	Cash paid from amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	165	11,176	1,605
Operating cash flows from finance lease	2,251	5,184	744
Financing cash flows from finance lease	27,000	108,000	15,507
Non-cash right-of-use assets obtained in acquisition for operating lease	-	10,194	1,464
Non-cash lease liabilities obtained in acquisition for operating lease	-	10,194	1,464

Future minimum lease payments are as follows as of December 31, 2022:

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Years ending December 31,	Operating Lease Payment	Operating Lease Payment	Finance Lease Payment	Finance Lease Payment	Total Lease Payment	Total Lease Payment
	RMB	US\$	RMB	US\$	RMB	US\$
2023	13,227	1,899	28,358	4,072	41,585	5,971
2024	10,042	1,442	-	-	10,042	1,442
2025	9,721	1,396	-	-	9,721	1,396
2026	9,728	1,397	-	-	9,728	1,397
2027	9,435	1,355	-	-	9,435	1,355
Thereafter	48,351	6,942	-	-	48,351	6,942
Total lease payments	100,504	14,431	28,358	4,072	128,862	18,503
Less: imputed interest	(22,279)	(3,199)	(358)	(52)	(22,637)	(3,251)
Total lease liabilities	78,225	11,232	28,000	4,020	106,225	15,252

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11. Shareholders' Equity

In January 2022, certain third-party investors entered into investment agreements with the Company in total consideration of RMB509 million (US\$80 million) to subscribe for the Company's equity interest ("2022 Financing"). As of December 31, 2022, the Company received all capital injection, of which RMB212,899 and RMB296,101 was recorded in paid-in capital and additional paid-in capital, respectively.

12. Share-based Compensation

On December 30, 2021, the Board of Directors approved a Share Incentive Plan ("Plan") to grant share-based compensation awards to attract, motivate, retain and reward its employees. Pursuant to the Plan, the Company reserved a total of 19,947,400 shares, of which 15,752,900 restricted shares as of December 31, 2022 were granted to certain employees through the employee stock holding platforms (the "Platform"), which are several limited partnerships. Under the Plan, employees are eligible to subscribe such restricted shares at one US\$ dollar per each. Vesting is subject to certain service and performance conditions, which includes a condition where employees are not entitled to transfer or redeem the share until the Company's ordinary shares become listed securities over 12 months, which substantially creates a performance condition. As of December 31, 2022, the Company received the subscription consideration of RMB79,302 (US\$11,875), which were remitted by the employees in the form of cash through the Platform.

The fair value of each restricted share granted was determined at RMB15.20 (US\$2.38) using the market approach by reference to the fair value of the ordinary share indicating by the Company's most recent equity financing.

The following table discloses movements for the year ended December 31, 2022:

	Number of restricted shares
As of January 1, 2022	-
Granted	15,752,900
As of December 31, 2022	15,752,900
Number of restricted shares expected to vest	15,752,900
Number of restricted shares exercisable	-

The Company did not recognize any share-based compensation expenses for restricted shares as the listing of the Company is not assessed to be probable as of December 31, 2022.

13. Income Tax Expense

Under PRC's Enterprise Income Tax Law ("EIT Law"), the statutory income tax rate is 25%, and the EIT rate will be reduced to 15% for the encouraged enterprises located in the western region which the company met the requirement, according to the taxation No.23 in 2020 announced by China Development and Reform Commission of the Ministry of Finance and the State Administration, from January 1, 2021 to December 31, 2030. Additionally, as a recognized semiconductor packaging and testing entity, the Company is entitled to a two-year exemption and three-year 50% reduction starting from the first profit making year after absorbing all prior years' tax losses. The Company has not entered into the first tax profitable year as of December 31, 2022. No provision for income taxes has been required to be accrued because the Company is in cumulative loss positions for the period presented.

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13. Income Tax Expense - continued

A reconciliation between the effective income tax rate and the PRC statutory income tax rate is as follows:

	Year ended December 31, 2022
PRC Statutory income tax rate	25%
Tax effect of non-deductible expenses in determining taxable profit	(10)%
Research and development super deduction	251%
Preferential tax rate	(10)%
Changes in valuation allowance	(256)%
Effective income tax rate	-

The principal components of the deferred tax assets are as follows:

	Year ended December 31, 2022	
	2022	2022
	RMB	US\$
Deferred tax assets:		
Net loss carry-forward	136,691	19,627
Impairment provisions	2,260	324
Accrued warranty expenses	2,071	297
Accrued compensation	1,384	199
Deferred income of governmental subsidy	482	69
Accrued other expenses	3,498	503
Less: valuation allowance	(146,386)	(21,019)
Deferred tax assets, net	-	-

The Company considers positive and negative evidence to determine whether some portion or all of the deferred tax assets will be more likely than not realized. This assessment considers, among other matters, the nature, frequency and severity of recent losses and forecasts of future profitability. These assumptions require significant judgment and the forecasts of future taxable income are consistent with the plans and estimates the Company is using to manage the underlying businesses. Valuation allowances are established for deferred tax assets based on a more likely than not threshold. The Company's ability to realize deferred tax assets depends on its ability to generate sufficient taxable income within the carry forward periods provided for in the tax law. The Company has determined that for the deferred tax assets on temporary differences and net operating loss carry forwards, it is not able to conclude that the future realization of those net operating loss carry forwards and other deferred tax assets are more likely than not. As such, the Company has fully provided valuation allowance for the deferred tax assets as of December 31, 2021 and 2022. No unrecognized tax benefits and related interest and penalties were recorded in the period presented. Amounts of operating loss carry forwards were approximately RMB911 million (US\$135 million) for the year ended December 31, 2022, which are expected to expire through 2026.

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The following table presents the movement of the valuation allowance:

	<u>2022</u>	<u>2022</u>
	RMB	US\$
Balance as of December 31, 2021	148,148	21,217
Provided	(8,729)	(1,253)
Reversed	292	42
Written off	10,200	1,465
Balance as of December 31, 2022	146,386	21,019

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14. Related party transactions

The table below sets forth the major related parties and the relationship with the Company as of December 31, 2022:

Company Name	Relationship with the Company
Alpha and Omega Semiconductor Limited and its subsidiaries ("AOS Group")	Shareholder

(a) Amounts due from related parties

Account	Name of related parties	December 31,		
		2021	2022	
		RMB	RMB	US\$
Amounts due from related parties, net	AOS Group	313,429	241,954	34,741

The balances of amounts due from related parties as of December 31, 2021 and 2022 are related to sale of finished goods to AOS Group.

(b) Amounts due to related parties

Account	Name of related parties	December 31,		
		2021	2022	
		RMB	RMB	US\$
Amounts due to related parties	AOS Group	489,159	96,376	13,838

The balances of amounts due to related parties as of December 31, 2021 and 2022 are related to purchase of raw materials (RMB477,784 and RMB86,449, respectively) and equipment (RMB11,375 and RMB9,927, respectively) from AOS Group. All the balances related to historical purchase of equipment and there is no new purchase of equipment from related parties this year.

(c) Sales and purchase with related parties

Accounts	Name of related parties	December 31,		
		2021	2022	
		RMB	RMB	US\$
Revenue from related parties	AOS Group	117,272	1,239,221	177,931
Other operating income, net from related parties	AOS Group	-	20,555	2,951
Purchase from related parties	AOS Group	31,739	430,585	61,825

For the one month ended December 31, 2021 and the year ended December 31, 2022, all of the related parties balances and transactions are as above.

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15. Commitments and Contingencies

As of December 31, 2022, the Company's commitments related to purchase of property and equipment contracted but not yet reflected in the financial statements were RMB178,059 which are expected to be incurred in the year ended December 31, 2023.

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. If a potential material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, is disclosed. Legal costs incurred in connection with loss contingencies are expensed as incurred.

16. Subsequent events

The subsequent events were evaluated through August 23, 2023, which is the issuance date of the audited financial statements. No Subsequent events are noted.