



**O<sub>2</sub>MICRO INTERNATIONAL LIMITED**

**凹凸科技有限公司\***

*(Incorporated in Cayman Islands with limited liability)*

**(Stock Code: 457)**

## **OVERSEAS REGULATORY ANNOUNCEMENT**

This announcement is a reproduction of the announcement in relation to the Company's sales and earnings for the third quarter. The enclosed overseas regulatory announcement is issued pursuant to Rule 13.09(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

*As at the date of this announcement, Mr. Sterling Du, Mr. Chuan Chiung "Perry" Kuo and Mr. James Elvin Keim are executive directors of O<sub>2</sub>Micro whereas Mr. Michael Austin, Mr. Teik Seng Tan, Mr. Lawrence Lai-Fu Lin, Mr. Keisuke Yawata, Mr. Xiaolang Yan and Mr. Ji Liu are independent non-executive directors.*

\* *For identification purposes only*

## **O<sub>2</sub>Micro<sup>®</sup> Reports Third Quarter Financial Results**

**October 29, 2008.** O<sub>2</sub>Micro<sup>®</sup> International Limited (NASDAQ<sup>®</sup>: OIIM; SEHK: 0457), a leading supplier of innovative power management and security components, will announce its financial results today for the third quarter of fiscal 2008 and for nine months ended September 30, 2008.

### **Financial results for the third quarter ending 9/30/2008:**

Net sales for the third quarter of 2008 were \$37.8 million, a decrease of 7.4% from the preceding quarter, and a decrease of 16.3% from the third quarter of the prior year. The GAAP gross margin on net sales was 59.3% in the third quarter, up from 58.2% in the preceding quarter, and 57.5% from the third quarter of the prior year.

The Company recorded a GAAP operating margin of 1.9% in the third quarter, after including the one-time write-off of \$2.9 million in prepayments to foundry services. R&D expenditures were \$9.8 million, or 26.0% of net sales, including \$284,000 of stock-based compensation. SG&A expenses were \$8.9 million, or 23.6% of net sales, including \$429,000 of stock-based compensation.

During the third quarter, the company also wrote down investment assets related to the bankruptcy of SinoMos. This resulted in a one-time impairment loss on long-term investments of \$13.1 million. It is reflected in the Non-operating Loss that was reported in the quarter.

GAAP Net Loss for the third quarter of 2008 was \$12.6 million or \$0.34 per American Depositary Share (ADS). This loss includes the one-time write-off of \$2.9 million in prepayments to foundry services and the impairment loss on long-term investments of \$13.1 million.

### **Financial results for the nine months ending 9/30/2008:**

Net sales for the nine months ended September 30, 2008 were \$116.1 million, a decrease of 1.9% from the prior year. The GAAP gross margin on net sales was 58.6% in the first nine months of fiscal 2008, up from 56.4% in the first nine months of fiscal 2007.

The Company recorded a GAAP operating margin of 6.4% for the first nine months of fiscal 2008. This compares with a GAAP operating margin of 13.7% in same timeframe of fiscal 2007. The major differences in the year-to-year comparison of operating margin include the one-time \$2.9 million charge for the write-off of prepaid foundry services discussed above, as well as lower litigation income during 2008.

For the first nine months of fiscal 2008, R&D expenditures were \$29.0 million, or 25.0% of net sales, including \$830,000 of stock-based compensation; SG&A expenses were \$30.7 million for the same period, or 26.4% of net sales, including \$1.3 million of stock-based compensation.

GAAP Net Loss for the first nine months of fiscal 2008 was \$5.9 million. GAAP Net Income for the first nine months of fiscal 2007 was \$17.3 million. GAAP Earnings per fully diluted ADS declined from \$0.45 in the first nine months of fiscal 2007 to GAAP Loss per ADS of \$0.16 in the comparable period of fiscal 2008. These year-to-year declines were exacerbated by the write-off and impairment charges in the third quarter of fiscal 2008 that were discussed above, as well as by the higher non-recurring legal income that was recognized in fiscal 2007.

### **Supplementary data:**

As of September 30, 2008, O<sub>2</sub>Micro had unrestricted cash and short-term investments of \$97.1 million, or \$2.59 per ADS. Net accounts receivable was \$21.3 million, and there were 57 days sales outstanding in accounts receivable at the end of the third quarter of 2008. Inventory was \$18.3 million and turned 3.2 times in the same quarterly period.

As of September 30, 2008, O<sub>2</sub>Micro's headcount consisted of 943 employees, including 628 people working in R&D. This headcount was down 120 employees from the end of last quarter due primarily to the planned divestiture of the OceanOne group.

### **Management Commentary:**

Sterling Du, Chairman and CEO, commented, "O<sub>2</sub>Micro is facing the same challenges as every other company and we will rely on our commitment to R&D and new product development to see us through this difficult period." Mr. Du continued, "Although some of our customers are retrenching, we continue to be an important partner and expect to fully participate whenever a recovery comes about."

### **Conference Call:**

O<sub>2</sub>Micro will hold its third quarter conference call at 5:00 a.m. PDT, 8:00 a.m. EDT, and 8:00 p.m. Hong Kong time. You may participate using the following dial-in information.

|                                   |                                  |
|-----------------------------------|----------------------------------|
| In the US and CANADA:             | 866-409-1555, pass code #7041539 |
| In HONG KONG:                     | 800-965-503, pass code #7041539  |
| Other INTERNATIONAL participants: | 913-312-1444, pass code #7041539 |

A replay of the call will be available by phone until November 5th using the following dial-in information.

|                                   |                                  |
|-----------------------------------|----------------------------------|
| In the US and CANADA:             | 888-203-1112, pass code #7041539 |
| In HONG KONG:                     | 800-901-108, pass code #7041539  |
| Other INTERNATIONAL participants: | 719-457-0820, pass code #7041539 |

A live simulcast will also be available on the company website at [www.o2micro.com](http://www.o2micro.com), and an online replay will be available on the website for one week.

**O<sub>2</sub>Micro International Limited and Subsidiaries**  
**Consolidated Statements of Operations and Comprehensive Income (Unaudited)**  
**(In Thousand U.S. Dollars, Except Per Share Amounts)**

|   | Three Months Ended |                   | Nine Months Ended |                   |
|---|--------------------|-------------------|-------------------|-------------------|
|   | September 30,      |                   | September 30,     |                   |
|   | 2007               | 2008              | 2007              | 2008              |
| NET SALES   | \$45,139           | \$37,787          | \$118,367         | \$116,133         |
| COST OF SALES   | 19,200             | 15,383            | 51,640            | 48,040            |
| GROSS PROFIT  | <u>25,939</u>      | <u>22,404</u>     | <u>66,727</u>     | <u>68,093</u>     |
| OPERATING EXPENSES (INCOME)                                 |                    |                   |                   |                   |
| Research and development (1)                                | 8,683              | 9,813             | 24,856            | 29,026            |
| Selling, general and administrative (1)                     | 11,765             | 8,930             | 34,573            | 30,691            |
| Write-off of prepayments to foundry services                | —                  | 2,942             | —                 | 2,942             |
| Litigation income   | (5,500)            | —                 | (8,864)           | (2,000)           |
| Total Operating Expenses                                    | <u>14,948</u>      | <u>21,685</u>     | <u>50,565</u>     | <u>60,659</u>     |
| INCOME FROM OPERATIONS                                      | <u>10,991</u>      | <u>719</u>        | <u>16,162</u>     | <u>7,434</u>      |
| NON-OPERATING INCOME  |                    |                   |                   |                   |
| Interest income   | 830                | 547               | 2,458             | 1,710             |
| Foreign exchange loss                                       | (65)               | (93)              | (213)             | (522)             |
| Impairment loss on long-term investments                    | —                  | (13,073)          | —                 | (13,073)          |
| Other — net   | 105                | 20                | 112               | 29                |
| Total Non-operating Income (Loss)                           | <u>870</u>         | <u>(12,599)</u>   | <u>2,357</u>      | <u>(11,856)</u>   |
| INCOME (LOSS) BEFORE INCOME TAX                             | 11,861             | (11,880)          | 18,519            | (4,422)           |
| INCOME TAX EXPENSE  | 448                | 689               | 1,265             | 1,525             |
| NET INCOME (LOSS)   | <u>11,413</u>      | <u>(12,569)</u>   | <u>17,254</u>     | <u>(5,947)</u>    |
| OTHER COMPREHENSIVE INCOME<br>(LOSS)                        |                    |                   |                   |                   |
| Foreign currency translation adjustments                    | 511                | (820)             | 835               | 1,797             |
| Unrealized gain (loss) on available-for-sale securities     | (1,318)            | (1,623)           | 2,479             | (4,715)           |
| Total Other Comprehensive Income (Loss)                     | <u>(807)</u>       | <u>(2,443)</u>    | <u>3,314</u>      | <u>(2,918)</u>    |
| COMPREHENSIVE INCOME (LOSS)                                 | <u>\$10,606</u>    | <u>\$(15,012)</u> | <u>\$20,568</u>   | <u>\$(8,865)</u>  |
| EARNINGS (LOSS) PER SHARE:                                  |                    |                   |                   |                   |
| Basic   | <u>\$0.0060</u>    | <u>\$(0.0068)</u> | <u>\$0.0091</u>   | <u>\$(0.0032)</u> |
| Diluted   | <u>\$0.0058</u>    | <u>NA</u>         | <u>\$0.0089</u>   | <u>NA</u>         |
| EARNINGS (LOSS) PER ADS                                     |                    |                   |                   |                   |
| Basic   | <u>\$0.30</u>      | <u>\$(0.34)</u>   | <u>\$0.45</u>     | <u>\$(0.16)</u>   |
| Diluted   | <u>\$0.29</u>      | <u>NA</u>         | <u>\$0.45</u>     | <u>NA</u>         |
| SHARES USED IN EARNINGS PER SHARE<br>CALCULATION:           |                    |                   |                   |                   |
| Basic (in thousands)  | <u>1,902,278</u>   | <u>1,845,031</u>  | <u>1,904,506</u>  | <u>1,872,860</u>  |
| Diluted (in thousands)                                      | <u>1,960,613</u>   | <u>1,848,713</u>  | <u>1,931,983</u>  | <u>1,880,790</u>  |
| ADS UNITS USED IN EARNINGS PER ADS<br>CALCULATION:          |                    |                   |                   |                   |
| Basic (in thousands)  | <u>38,046</u>      | <u>36,901</u>     | <u>38,090</u>     | <u>37,457</u>     |
| Diluted (in thousands)                                      | <u>39,212</u>      | <u>36,974</u>     | <u>38,640</u>     | <u>37,616</u>     |
| (1) INCLUDES STOCK-BASED COMPENSATION<br>CHARGE AS FOLLOWS: |                    |                   |                   |                   |
| Research and development                                    | \$273              | \$284             | \$803             | \$830             |
| Selling, general and administrative                         | \$362              | \$429             | \$1,066           | \$1,277           |

**O<sub>2</sub>Micro International Limited and Subsidiaries**  
**Consolidated Balance Sheets**  
(In Thousand U.S. Dollars, Except Share Amounts)

|  | <b>December 31,<br/>2007</b> | <b>September 30,<br/>2008<br/>(Unaudited)</b> |
|--|------------------------------|---|
| <b>ASSETS</b>                                  |                              |   |
| <b>CURRENT ASSETS</b>                          |                              |   |
| Cash and cash equivalents                      | \$52,597                     | \$38,538                                      |
| Restricted cash                                | 6,830                        | 1,156   |
| Short-term investments                         | 28,650                       | 58,594  |
| Accounts receivable — net                      | 24,600                       | 21,297  |
| Inventories                                    | 22,127                       | 18,319  |
| Prepaid expenses and other current assets      | 7,476                        | 2,747   |
| Total Current Assets                           | <u>142,280</u>               | <u>140,651</u>                                |
| LONG-TERM INVESTMENTS                          | 26,715                       | 13,320  |
| PROPERTY AND EQUIPMENT — NET                   | <u>43,148</u>                | <u>35,410</u>                                 |
| <b>OTHER ASSETS</b>                            |                              |   |
| Restricted assets — net                        | <u>12,393</u>                | <u>2,251</u>                                  |
| Other Assets                                   | <u>3,876</u>                 | <u>13,701</u>                                 |
| <b>TOTAL ASSETS</b>                            | <u><u>\$228,412</u></u>      | <u><u>\$205,333</u></u>                       |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>    |                              |   |
| <b>CURRENT LIABILITIES</b>                     |                              |   |
| Notes and accounts payable                     | \$10,841                     | \$5,923                                       |
| Income tax payable                             | 1,065                        | 977   |
| Accrued expenses and other current liabilities | <u>11,597</u>                | <u>11,365</u>                                 |
| Total Current Liabilities                      | <u>23,503</u>                | <u>18,265</u>                                 |
| <b>OTHER LONG-TERM LIABILITIES</b>             |                              |   |
| Accrued pension liabilities                    | 520                          | 457   |
| FIN 48 tax liabilities                         | 210                          | 225   |
| Other liabilities                              | <u>—</u>                     | <u>24</u>                                     |
| Total Long-Term Liabilities                    | <u>730</u>                   | <u>706</u>                                    |
| Total Liabilities                              | <u>24,233</u>                | <u>18,971</u>                                 |

## COMMITMENTS AND CONTINGENCIES

### SHAREHOLDERS' EQUITY

|  |                  |                  |
|--|------------------|------------------|
| Preference shares at \$0.00002 par value per share   |                  |                  |
| Authorized — 250,000,000 shares  | —                | —                |
| Ordinary shares at \$0.00002 par value per share   |                  |                  |
| Authorized — 4,750,000,000 shares  |                  |                  |
| Issued — 1,875,740,250 and 1,911,868,150 shares<br>as of September 30, 2008 and December 31, 2007,<br>respectively | 38               | 37               |
| Additional paid-in capital   | 144,944          | 144,403          |
| Retained earnings  | 56,847           | 46,003           |
| Accumulated other comprehensive income   | 3,646            | 728              |
| Treasury stock — 46,813,450 shares and 5,000,000 as of<br>September 30, 2008 and December 31, 2007, respectively   | (1,296)          | (4,809)          |
| Total Shareholders' Equity   | <u>204,179</u>   | <u>186,362</u>   |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY   | <u>\$228,412</u> | <u>\$205,333</u> |

By order of the Board

**Sterling Du**

*Executive Director*

29th October, 2008