



**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 fourth 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 Fourth Quarter and Fiscal Year End Financial Results

**February 4, 2009.** 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, reported its financial results today for the fourth quarter and fiscal year ended December 31, 2008.

## **Financial results for the Fourth Quarter ending 12/31/2008:**

Net sales in the fourth quarter of 2008 were \$22.7 million. Sales decreased by 52%, compared to the fourth quarter of 2007. The decrease in sales was exacerbated by the global economic crisis that worsened in the quarter. The GAAP gross margin was 55.6% in the fourth quarter of 2008 and declined from 58.7% in Q4 2007. The lower gross margin was primarily due to reduced revenue levels and the fixed cost component inside of the cost of sales.

GAAP operating expenses were lower than the year-ago period, excluding non-recurring items. R&D expense was \$8.4 million in Q4 2008 and it was \$1.4 million less than the corresponding expense in Q4 2007. SG&A expense was \$8.3 million in Q4 2008 and it was down \$2.7 million from the comparable year-ago period. During the fourth quarter of 2008, the company also recorded a non-recurring charge of \$2.8 million for goodwill impairment. There was no comparable impairment charge in the fourth quarter of 2007. Similarly, there was not any non-recurring litigation income in the fourth quarter of 2008, although there was \$500,000 of non-recurring litigation income in the fourth quarter of 2007.

The company reported a GAAP loss from operations of \$6.9 million in the fourth quarter of 2008, compared to GAAP income from operations of \$7.5 million in the fourth quarter of 2007. The decline from the fourth quarter of 2007 to the fourth quarter of 2008 was due to lower revenue and gross margin and the non-recurring goodwill impairment charge that was incurred this quarter, in addition to the non-recurring litigation income that was collected in the year-ago quarter.

In Q4 2008, O<sub>2</sub>Micro<sup>®</sup> had non-operating income of \$796,000 and incurred \$715,000 of income tax expense. This compares with Q4 2007 non-operating income and income tax expense of \$462,000 and \$191,000, respectively. Non-operating income consists primarily of interest income on the company's cash and investments and income tax expense relates to statutory tax accruals from certain international geographies.

During the fourth quarter of 2008, these results produced a GAAP net loss of \$6.8 million, compared to GAAP net income of \$7.7 million in Q4 2007. The GAAP loss per ADS was \$0.19 in Q4 2008 and compares with GAAP earnings per ADS of \$0.20 in Q4 2007.

## **Financial results for the Fiscal Year Ended 12/31/2008:**

For the twelve months ending December 31, 2008, revenue was \$138.8 million. Revenue declined by 16% from the prior year due to progressively worsening economic conditions. The GAAP gross margin was 58.1% for the complete 2008 fiscal year. The fiscal 2008 gross margin percentage reflected an improvement from 57.1% in fiscal 2007.

GAAP operating expenses decreased slightly from 2007 to 2008 after excluding non-recurring income and expenses. R&D expense increased from \$34.6 million in 2007 to \$37.4 million in 2008. This increase reflects the company's commitment to developing new products. This increase was more than offset by lower SG&A expenses, which declined from \$45.6 million in 2007 to \$39.0 million in 2008. During 2007, the company received \$9.4 million of non-recurring litigation income and it received an additional \$2.0 million of one-time litigation income in 2008. In addition, the company expensed \$5.7 million of combined non-recurring items for the write-off of prepaid foundry services in the third quarter of 2008 and the impairment of goodwill in the fourth quarter of 2008.

GAAP income from operations was \$564,000 in fiscal 2008. Income from operations was down from \$23.6 million in fiscal 2007. Approximately \$13.1 million of the year-to-year decline in income from operations was due to higher non-recurring expenses in 2008 and lower litigation income compared to 2007. The remaining decline in operating income is attributable to the normal operating results of the company.

Non-operating loss was \$11.1 million in 2008, compared to non-operating income of \$2.8 million in 2007. The non-operating loss that was reported in 2008 includes a one-time impairment loss of \$13.1 million in long-term investments that was incurred in Q3 2008.

GAAP net loss in 2008 was \$12.7 million, including \$18.8 million of non-recurring expenses and \$2.0 million of non-recurring litigation income. This compares to GAAP net income of \$25.0 million in 2007, which includes \$9.4 million on non-recurring litigation income. GAAP loss per ADS was \$0.34 in 2008 and compares with GAAP earnings per ADS of \$0.64 in 2007.

### **Supplementary Data:**

As of December 31, 2008 O<sub>2</sub>Micro<sup>®</sup> had unrestricted cash and short-term investments of \$104.2 million, or \$2.84 per ADS. Net accounts receivable was \$10.6 million, and there were 63 days sales outstanding in accounts receivable at the end of the fourth quarter of 2008. Inventory was \$16.4 million and turned over 2.3 times in Q4 2008.

As of 12/31/08 O<sub>2</sub>Micro<sup>®</sup> headcount consisted of 876 employees, of which 586 are engineers. This headcount was down from 943 employees at the end of the third quarter of 2008.

## Management Commentary:

Sterling Du, Chairman and CEO, commented: “During these turbulent times, we are taking the opportunity to streamline our operations and improve our efficiency. We are working harder than ever to be successful and we aren’t standing still and waiting for an economic recovery.” He continued: “We are continuing to invest our R&D dollars in several young product lines and we are seeing early signs of success with them.”

**Conference Call:** O<sub>2</sub>Micro will hold its fourth quarter conference call at 2:00 p.m. PST, 5:00 p.m. EST, and 6:00 a.m. (February 5, 2009) Hong Kong time. You may participate using the following dial-in information.

In the US and CANADA:	888-542-1101, pass code #4565867
In HONG KONG:	800-968-103, pass code #4565867
Other INTERNATIONAL participants:	719-457-2626, pass code #4565867

A replay of the call will be available by phone until February 11 using the following dial-in information.

In the US and CANADA:	888-203-1112, pass code #4565867
In HONG KONG:	800-901-108, pass code #4565867
Other INTERNATIONAL participants:	719-457-0820, pass code #4565867

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**

(In Thousand U.S. Dollars, Except Per Share Amounts)

	<b>Three Months Ended</b>		<b>Years Ended</b>	
	<b>December 31,</b>		<b>December 31,</b>	
	<b>2008</b>	2007	<b>2008</b>	2007
	(Unaudited)		(Unaudited)	
NET SALES	<b>\$22,692</b>	\$47,173	<b>\$138,825</b>	\$165,540
COST OF SALES	<b>10,070</b>	19,459	<b>58,110</b>	71,099
GROSS PROFIT	<b>12,622</b>	27,714	<b>80,715</b>	94,441
OPERATING EXPENSES (INCOME)				
Research and development (1)	<b>8,398</b>	9,768	<b>37,424</b>	34,624
Selling, general and administrative (1)	<b>8,312</b>	10,987	<b>39,003</b>	45,560
Goodwill Impairment	<b>2,782</b>	—	<b>2,782</b>	—
Write-off of prepayments to foundry services	—	—	<b>2,942</b>	—
Litigation income	—	(500)	<b>(2,000)</b>	(9,364)
Total Operating Expenses	<b>19,492</b>	20,255	<b>80,151</b>	70,820
INCOME (LOSS) FROM OPERATIONS	<b>(6,870)</b>	7,459	<b>564</b>	23,621
NON-OPERATING INCOME				
Interest income	<b>618</b>	804	<b>2,328</b>	3,262
Foreign exchange income gain (loss)	<b>110</b>	(335)	<b>(412)</b>	(548)
Impairment loss on long-term investments	—	—	<b>(13,073)</b>	—
Other — net	<b>68</b>	(7)	<b>97</b>	105
Total Non-operating Income (Loss)	<b>796</b>	462	<b>(11,060)</b>	2,819
INCOME (LOSS) BEFORE INCOME TAX	<b>(6,074)</b>	7,921	<b>(10,496)</b>	26,440
INCOME TAX EXPENSE	<b>715</b>	191	<b>2,240</b>	1,456
NET INCOME (LOSS)	<b>(6,789)</b>	7,730	<b>(12,736)</b>	24,984

	<b>Three Months Ended December 31,</b>		<b>Years Ended December 31,</b>	
	<b>2008</b>	2007	<b>2008</b>	2007
	(Unaudited)		(Unaudited)	
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
Foreign currency translation adjustments	<b>(331)</b>	832	<b>1,466</b>	1,667
Unrealized gain (loss) on available-for-sale securities	<b>(134)</b>	223	<b>(4,849)</b>	2,702
Unrealized pension loss	<b>(123)</b>	(95)	<b>(123)</b>	(95)
Total Other Comprehensive Income (Loss)	<b>(588)</b>	960	<b>(3,506)</b>	4,274
<b>COMPREHENSIVE INCOME (LOSS)</b>	<b>\$(7,377)</b>	\$8,690	<b>\$(16,242)</b>	\$29,258
<b>EARNINGS (LOSS) PER SHARE:</b>				
Basic	<b>\$(0.0037)</b>	\$0.0040	<b>\$(0.0068)</b>	\$0.0131
Diluted	<b>NA</b>	\$0.0039	<b>NA</b>	\$0.0129
<b>EARNINGS (LOSS) PER ADS</b>				
Basic	<b>\$(0.19)</b>	\$0.20	<b>\$(0.34)</b>	\$0.66
Diluted	<b>NA</b>	\$0.20	<b>NA</b>	\$0.64
<b>SHARES USED IN EARNINGS PER SHARE CALCULATION:</b>				
Basic (in thousands)	<b>1,832,744</b>	1,909,382	<b>1,862,831</b>	1,905,725
Diluted (in thousands)	<b>1,834,501</b>	1,979,189	<b>1,869,218</b>	1,943,785
<b>ADS UNITS USED IN EARNINGS PER ADS CALCULATION:</b>				
Basic (in thousands)	<b>36,655</b>	38,188	<b>37,257</b>	38,115
Diluted (in thousands)	<b>36,690</b>	39,584	<b>37,384</b>	38,876
<b>(1) INCLUDES STOCK-BASED COMPENSATION CHARGE AS FOLLOWS:</b>				
Research and development	<b>\$237</b>	\$255	<b>\$1,067</b>	\$1,058
Selling, general and administrative	<b>\$344</b>	\$342	<b>\$1,621</b>	\$1,408

# O<sub>2</sub>Micro International Limited and Subsidiaries

## Consolidated Balance Sheets

(In Thousand U.S. Dollars, Except Share Amounts)

	<b>December 31,</b>	
	<b>2008</b>	2007
	(Unaudited)	
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	<b>\$31,844</b>	\$52,597
Restricted cash	<b>1,153</b>	6,830
Short-term investments	<b>72,344</b>	28,650
Accounts receivable — net	<b>10,578</b>	24,600
Inventories	<b>16,388</b>	22,127
Prepaid expenses and other current assets	<b>2,314</b>	7,476
Total Current Assets	<b>134,621</b>	142,280
LONG-TERM INVESTMENTS	<b>13,199</b>	26,715
PROPERTY AND EQUIPMENT — NET	<b>34,353</b>	43,148
OTHER ASSETS		
Restricted assets — net	<b>1,411</b>	12,393
Other Assets	<b>9,689</b>	3,876
<b>TOTAL ASSETS</b>	<b>\$193,273</b>	\$228,412
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Notes and accounts payable	<b>\$4,120</b>	\$10,841
Income tax payable	<b>226</b>	1,065
Accrued expenses and other current liabilities	<b>8,269</b>	11,597
Total Current Liabilities	<b>12,615</b>	23,503
<b>OTHER LONG-TERM LIABILITIES</b>		
Accrued pension liabilities	<b>553</b>	520
FIN 48 tax liabilities	<b>302</b>	210
Other liabilities	<b>23</b>	—
Total Long-Term Liabilities	<b>878</b>	730
Total Liabilities	<b>13,493</b>	24,233

**December 31,**  
**2008**                      2007  
(Unaudited)

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 — 1,832,788,400 and 1,911,868,150 shares as of December 31, 2008 and 2007, respectively	<b>37</b>	38
Additional paid-in capital	<b>141,784</b>	144,944
Retained earnings	<b>37,819</b>	56,847
Accumulated other comprehensive income	<b>140</b>	3,646
Treasury stock — 5,000,000 as of December 31, 2007	—	(1,296)
	<b>179,780</b>	204,179
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$193,273</b>	\$228,412

By order of the Board  
**Sterling Du**  
*Executive Director*

4 February, 2009