

ADVANCED ANALOG TECHNOLOGY, INC.
Financial Statements
December 31, 2009 and 2008
(With Independent Auditors' Report Thereon)

Independent Auditors' Report

The Board of Directors
Advanced Analog Technology, Inc.

We have audited the accompanying balance sheets of Advanced Analog Technology, Inc. as of December 31, 2009 and 2008, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those regulations and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Advanced Analog Technology, Inc. as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, the related financial accounting standards of the Business Entity Accounting Act and of the Regulation on Business Entity Accounting Handling, and accounting principles generally accepted in the Republic of China.

As discussed in Note 3 to the financial statements, effective January 1, 2008, the Company adopted Interpretation No. (96)052 issued by the Accounting Research and Development Foundation to measure and recognize employee bonuses and remuneration to directors and supervisors, resulting in a decrease in net income and basic earnings per common share of NT\$44,068 thousand and NT\$1.13, respectively, for the year ended December 31, 2008.

Hsinchu, Taiwan (the Republic of China)
January 29, 2010

Notes to Readers

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with the accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

ADVANCED ANALOG TECHNOLOGY, INC.

Balance Sheets

December 31, 2009 and 2008

(Expressed in thousands of New Taiwan dollars)

	2009	2008
Assets		
Current assets:		
Cash (note 4(1))	\$ 522,546	875,071
Financial assets held-to-maturity—current (note 4(2))	16,015	-
Accounts receivable, net (note 4(3))	163,902	147,418
Other financial assets—current (note 6)	774	511
Inventories, net (note 4(4))	61,345	66,245
Deferred income tax assets—current (note 4(10))	14,656	9,057
Other current assets	3,499	4,348
	782,737	1,102,650
Property, plant and equipment:		
Land (notes 4(5) and 7)	141,574	-
Buildings (notes 4(5) and 7)	90,734	-
Machinery and equipment	25,077	23,883
Office equipment	14,741	12,838
Leasehold improvements	10,108	14,564
	282,234	51,285
Less: accumulated depreciation	(25,108)	(21,799)
Prepayments for construction and equipment (notes 4(5) and 7)	15,059	-
	272,185	29,486
Intangible assets:		
Trademarks (note 4(6))	34	94
Patents (note 4(6))	3,430	5,996
Computer software (note 4(6))	15,917	14,241
	19,381	20,331
Other assets:		
Guarantee deposits-out	1,230	2,595
Deferred charges	14,537	11,891
Deferred income tax assets—non-current (note 4(10))	32,699	30,642
Prepaid pension cost (note 4(8))	-	578
	48,466	45,706
Total Assets	\$ 1,122,769	1,198,173

See accompanying notes to financial statements.

ADVANCED ANALOG TECHNOLOGY, INC.

Balance Sheets (continued)

December 31, 2009 and 2008

(Expressed in thousands of New Taiwan dollars)

	<u>2009</u>	<u>2008</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 64,361	24,467
Accrued expenses	40,741	24,268
Accrued bonuses to employees and directors (note 4(9))	27,971	63,600
Corporate bonds payable—current (note 4(7))	53,019	-
Other current liabilities	<u>15,089</u>	<u>6,977</u>
	<u>201,181</u>	<u>119,312</u>
Bonds payable (note 4(7))	<u>-</u>	<u>79,303</u>
Total liabilities	<u>201,181</u>	<u>198,615</u>
Stockholders' equity (note 4(9)):		
Common stock	<u>398,261</u>	<u>398,261</u>
Capital surplus	<u>380,814</u>	<u>380,814</u>
Retained earnings:		
Legal reserve	120,862	94,787
Unappropriated earnings	<u>156,703</u>	<u>260,748</u>
	<u>277,565</u>	<u>355,535</u>
Treasury stock	<u>(135,052)</u>	<u>(135,052)</u>
Total stockholders' equity	921,588	999,558
Commitments and contingencies (note 7)		
Total Liabilities and Stockholders' Equity	\$ <u><u>1,122,769</u></u>	<u><u>1,198,173</u></u>

See accompanying notes to financial statements.

ADVANCED ANALOG TECHNOLOGY, INC.

Statements of Income

For the years ended December 31, 2009 and 2008

**(Expressed in thousands of New Taiwan dollars,
except for earnings per common share)**

	<u>2009</u>	<u>2008</u>
Sales	\$ 815,264	1,072,389
Less: sales returns and discounts	<u>15,337</u>	<u>6,926</u>
Net sales	799,927	1,065,463
Cost of goods sold	<u>494,787</u>	<u>641,212</u>
Gross profit	<u>305,140</u>	<u>424,251</u>
Operating expenses:		
Selling	40,272	44,120
General and administrative	40,565	47,559
Research and development	<u>100,367</u>	<u>112,930</u>
	<u>181,204</u>	<u>204,609</u>
Operating income	<u>123,936</u>	<u>219,642</u>
Non-operating income and gains:		
Interest income	6,322	16,833
Foreign currency exchange gains, net	-	6,184
Gain on valuation of financial instruments	-	1,217
Other income	<u>1,826</u>	<u>4,786</u>
	<u>8,148</u>	<u>29,020</u>
Non-operating expenses and losses:		
Interest expenses	1,382	1,392
Foreign currency exchange losses, net	1,401	-
Other losses	<u>2,695</u>	<u>1,197</u>
	<u>5,478</u>	<u>2,589</u>
Income before income tax	126,606	246,073
Income tax expenses (benefit) (note 4(10))	<u>11,501</u>	<u>(14,675)</u>
Net income	<u>\$ 115,105</u>	<u>260,748</u>
Earnings per common share (note 4(11))		
Basic earnings per common share	<u>\$ 2.98</u>	<u>6.71</u>
Diluted earnings per common share	<u>\$ 2.91</u>	<u>6.37</u>

See accompanying notes to financial statements.

ADVANCED ANALOG TECHNOLOGY, INC.
Statements of Changes in Stockholders' Equity
For the years ended December 31, 2009 and 2008
(Expressed in thousands of New Taiwan dollars)

	<u>Common stock</u>	<u>Capital surplus</u>	<u>Retained earnings</u>		<u>Treasury stock</u>	<u>Total</u>
			<u>Legal reserve</u>	<u>Unappropriated earnings</u>		
Balance at December 31, 2007	\$ 379,570	379,452	61,573	332,137	(18,289)	1,134,443
Appropriation of earnings:						
Legal reserve	-	-	33,214	(33,214)	-	-
Employee bonuses—stock	5,830	-	-	(5,830)	-	-
Employee bonuses—cash	-	-	-	(38,712)	-	(38,712)
Directors' and supervisors' remuneration	-	-	-	(5,978)	-	(5,978)
Stock dividends	12,861	-	-	(12,861)	-	-
Cash dividends	-	-	-	(235,542)	-	(235,542)
Issuance of bonds payable	-	225	-	-	-	225
Adjustment to conversion price of bonds payable	-	1,137	-	-	-	1,137
Treasury stock purchased by the Company	-	-	-	-	(116,763)	(116,763)
Net income	-	-	-	<u>260,748</u>	-	<u>260,748</u>
Balance at December 31, 2008	<u>398,261</u>	<u>380,814</u>	<u>94,787</u>	<u>260,748</u>	<u>(135,052)</u>	<u>999,558</u>
Appropriation of earnings:						
Legal reserve	-	-	26,075	(26,075)	-	-
Cash dividends	-	-	-	(193,075)	-	(193,075)
Net income	-	-	-	<u>115,105</u>	-	<u>115,105</u>
Balance at December 31, 2009	<u>\$ <u>398,261</u></u>	<u><u>380,814</u></u>	<u><u>120,862</u></u>	<u><u>156,703</u></u>	<u><u>(135,052)</u></u>	<u><u>921,588</u></u>

See accompanying notes to financial statements.

ADVANCED ANALOG TECHNOLOGY, INC.

Statements of Cash Flows

For the years ended December 31, 2009 and 2008

(Expressed in thousands of New Taiwan dollars)

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Net income	\$ 115,105	260,748
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	21,191	14,552
Reversal for inventory devaluation	(3,019)	(1,509)
Provision (reversal of provision) for doubtful accounts	167	(3,438)
Other loss (gain) with no cash flow impact	3,743	(166)
Decrease (increase) in notes and accounts receivable	(16,651)	187,655
Decrease in inventories	7,919	30,648
Increase in deferred income tax assets	(7,656)	(19,950)
Decrease (increase) in prepaid pension cost	578	(578)
Increase (decrease) in notes and accounts payable	39,894	(87,495)
Decrease in accrued pension liabilities	-	(524)
Decrease (increase) in other current assets	595	(2,382)
Increase (decrease) in other current liabilities	(11,443)	61,973
Net cash provided by operating activities	<u>150,423</u>	<u>439,534</u>
Cash flows from investing activities:		
Increase in financial assets held-to-maturity	(16,015)	-
Acquisition of property, plant and equipment	(250,382)	(14,268)
Increase in restricted cash in bank	(9)	(11)
Decrease (increase) in refundable deposits	1,365	(578)
Increase in deferred charges	(6,385)	(8,725)
Increase in intangible assets	(9,706)	(5,632)
Net cash used in investing activities	<u>(281,132)</u>	<u>(29,214)</u>
Cash flows from financing activities:		
Payment of cash dividend, remuneration to directors and supervisors, and employee bonuses	(193,075)	(280,232)
Purchase of treasury stock	-	(116,763)
Proceeds from issuance of convertible bonds	-	146,250
Redemption of bonds payable	(28,741)	(65,048)
Net cash used in financing activities	<u>(221,816)</u>	<u>(315,793)</u>
Net increase (decrease) in cash	(352,525)	94,527
Cash at beginning of year	<u>875,071</u>	<u>780,544</u>
Cash at end of year	<u>\$ 522,546</u>	<u>875,071</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest expense (excluding capitalized interest)	\$ <u>33</u>	<u>-</u>
Cash paid for income tax	\$ <u>6,329</u>	<u>9,918</u>
Cash paid for acquisition of property, plant and equipment:		
Acquisition of property, plant and equipment	\$ 251,768	16,948
Net change in real property and equipment payable	(399)	(2,680)
Capitalized interest	(987)	-
Cash paid	<u>\$ 250,382</u>	<u>14,268</u>

See accompanying notes to financial statements.

ADVANCED ANALOG TECHNOLOGY, INC.**Notes to Financial Statements****December 31, 2009 and 2008****(Expressed in thousands of New Taiwan dollars,
unless specified otherwise)****1. Organization and Business Scope**

Advanced Analog Technology, Inc. (the "Company") was incorporated on March 25, 1999, and moved into the Hsinchu Science Park in January 2003 upon the approval of the Science Park Administration Bureau. The Company's common shares were publicly listed on the Gre Tai Securities Market (GTSM) on July 19, 2006. The Company's main activities are the design, research, development, manufacture and sale of analog ICs.

As of December 31, 2009 and 2008, the Company had 111 and 119 employees, respectively.

2. Summary of Significant Accounting Policies

The financial statements are prepared in accordance with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, the Business Entity Accounting Act, the Regulation on Business Entity Accounting Handling, and accounting principles generally accepted in the Republic of China (ROC). The significant accounting policies adopted in preparing the accompanying financial statements are as follows:

(1) Use of estimates

The preparation of the accompanying financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

(2) Foreign currency transactions

The Company maintains its books of account in New Taiwan dollar, the national currency of the ROC. Non-derivative foreign currency transactions are recorded at the exchange rates prevailing at the transaction date. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated into New Taiwan dollars using the exchange rates on that date. The resulting unrealized exchange gains or losses from such translations are reflected in the accompanying statements of income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the reporting currency at the foreign exchange rates at the date the fair value was determined. If the non-monetary assets or liabilities are measured at fair value through profit or loss, the resulting unrealized exchange gains or losses from such translation are reflected in the accompanying statements of income. If the non-monetary assets or liabilities are measured at fair value through stockholders' equity, the resulting unrealized exchange gains or losses from such translation are recorded as a separate component of stockholders' equity.

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ADVANCED ANALOG TECHNOLOGY, INC.**Notes to Financial Statements****(3) Classification of current and noncurrent assets and liabilities**

Cash or cash equivalents, and assets that are held for the purpose of being traded or are expected to be realized within 12 months after the balance sheet date are classified as current assets; all other assets are classified as non-current.

Liabilities that are incurred primarily for the purpose of being traded or are expected to be settled within 12 months after the balance sheet date are classified as current liabilities; all other liabilities are classified as non-current.

(4) Asset impairment

The Company assesses at each balance sheet date whether there is any indication that an asset (individual asset or cash-generating unit) may have been impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. The Company recognizes impairment loss for an asset whose carrying value is higher than the recoverable amount. The Company reverses an impairment loss recognized for assets in prior periods if there is any indication that the impairment loss recognized no longer exists or has decreased. The carrying value after the reversal should not exceed the recoverable amount or the depreciated or amortized balance of the asset assuming no impairment loss was recognized in prior periods.

(5) Financial instruments

The Company adopted transaction date accounting for financial instrument transactions. At initial recognition, financial instruments are measured at fair value. Except for financial instruments measured at fair value through profit or loss, acquisition cost or issuance cost is added to the originally recognized amount.

Financial instruments are classified into the following categories in accordance with the purpose of holding such financial instruments:

- i. Financial assets at fair value through profit or loss: Financial assets are classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Derivatives that do not meet the criteria for hedge accounting are classified as financial assets at fair value through profit or loss.
- ii. Financial assets held-to-maturity: Financial assets held-to-maturity are measured at amortized cost using the effective interest method. If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. If, in a subsequent period, the amount of the impairment loss decreases and the decrease is clearly attributable to an event which occurred after the impairment loss was recognized, the previously recognized impairment loss is reversed to the extent of the decrease. The reversal may not result in a carrying amount of the financial asset that exceeds the amortized cost that would have been determined if no impairment loss had been recognized.

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ADVANCED ANALOG TECHNOLOGY, INC.**Notes to Financial Statements****(6) Derivative financial instruments**

The Company holds derivative financial instruments to hedge its exposure to foreign exchange risks arising from operating, financing and investing activities. When a derivative financial instrument does not meet all the conditions for hedge accounting, it is accounted for as a financial instrument held for trading purposes.

(7) Allowance for doubtful accounts

The allowance for doubtful accounts is provided based on management's historical experience on the collectibility of accounts receivable, credit quality, aging analysis, and the Company's credit policy.

(8) Inventories

The cost of inventories consists of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Beginning in January 2009, inventories are measured at the lower of cost or net realizable value. The cost of inventories is calculated based on the weighted-average method. Net realizable value is determined based on the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses at the end of the period.

Prior to January 1, 2009, inventories were stated at the lower of cost or market value. Cost is determined using the weighted-average method. Market value of raw materials is determined on the basis of replacement cost or net realizable value. Market value of finished goods and work-in-process is determined on the basis of net realizable value.

(9) Property, plant and equipment

Property, plant and equipment are stated at acquisition cost. Interest incurred in connection with the purchase or construction required to bring the assets to condition and location for their intended use is capitalized. Costs associated with significant additions, improvements, and replacements are capitalized. Repairs and maintenance are charged to expenses as incurred.

Depreciation of property, plant and equipment is provided over the estimated useful lives of the assets using the straight-line method. Depreciation of leasehold improvement is provided over the shorter of the estimated lease term or estimated useful life using the straight-line method. When a fully depreciated asset continues to be used, the residual value of such asset is depreciated over the estimated remaining useful life. The remaining useful life, depreciation method and residual value of a fixed asset are reviewed at each financial year-end and any change thereof is accounted for as a changes in accounting estimate.

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ADVANCED ANALOG TECHNOLOGY, INC.**Notes to Financial Statements**

The estimated useful lives of property, plant and equipment are as follows:

- i. Buildings: 50 years.
- ii. Machinery and equipment: 5 years.
- iii. Office equipment: 2 to 5 years.
- iv. Leasehold improvements: 5 years.

Gain or loss on the disposal of property, plant and equipment is accounted for as non-operating income or loss in the statement of income.

(10) Intangible assets

Effective from January 1, 2007, the Company adopted ROC Statement of Financial Accounting Standards (SFAS) No. 37 "Intangible Assets". In accordance with SFAS No. 37, except when it forms part of the cost of a business combination, expenditure on research is recognized as an expense when it is incurred. An intangible asset arising from development is recognized if, and only if, the Company can demonstrate all of the following:

- i. the technical feasibility of completing the intangible asset so that it can be made available for use or sale.
- ii. its intention to complete the intangible asset and use or sell it.
- iii. its ability to use or sell the intangible asset.
- iv. how the intangible asset will generate probable future economic benefits.
- v. the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- vi. its ability to measure reliably the expenditure attributable to the intangible asset during its development.

An intangible asset with a finite useful life is amortized using the straight-line basis over the estimated useful life from the date the asset is made available for use. Capitalized development expenditure is measured at cost less accumulated amortization and accumulated impairment losses. The residual value, amortization period, and amortization method are reviewed at least annually at each financial year-end and any change thereof is accounted for as a change in accounting estimate.

An intangible asset with an indefinite useful life is not amortized in accordance with SFAS No. 37. Capitalized development expenditure is measured at cost less accumulated impairment losses. The useful life is reviewed annually at each period end to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. A change in useful life assessment from indefinite to finite is accounted for as a change in accounting estimate.

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ADVANCED ANALOG TECHNOLOGY, INC.**Notes to Financial Statements**

The accounting for intangible assets described above differs from the related requirements of the Business Entity Accounting Act. As the Company is a publicly listed company, the Company adopted the Guidelines Governing the Preparation of Financial Reports by Securities Issuers.

Software is stated at cost and amortized over one to five years on a straight-line basis.

(11) Deferred charges

Masks are stated at cost and amortized over two years on a straight-line basis.

(12) Convertible bonds

Convertible bonds issued by the Company comprise a liability element and a conversion feature that provides bondholders the right to convert into common stock of the Company, and therefore are considered a hybrid instrument. The liability component of convertible bonds is recognized initially at fair value of a similar liability that does not include an equity conversion option. The equity component is recognized initially based on the difference between the fair value of convertible bonds as a whole and the fair value of the liability component. Transaction costs arising from the issuance are allocated to the liability and equity components in proportion to their initial carrying amounts. The interest expense of the liability component is calculated using the effective interest method and charged to current operations over the terms of the bonds. Any change to the fair value of the equity component subsequent to the initial measurement is not recognized.

(13) Retirement plan

The Company has established an employee noncontributory defined benefit retirement plan (the Plan) covering full-time employees. In accordance with the Plan, payments of retirement benefits are based on years of service and the average salary for the six-month period before the employee's retirement. Each employee earns two months of salary for the first fifteen years of service, and one month of salary for each year of service thereafter. The maximum retirement benefit is 45 months of salary. In accordance with the requirement of the ROC Labor Standards Law, the Company contributes monthly at a rate of 2% of salaries and wages to a pension fund maintained with the Bank of Taiwan.

Beginning July 1, 2005, pursuant to the ROC Labor Pension Act (hereinafter referred to as the "new system"), employees who elected to participate in the new system or joined the Company after July 1, 2005, are subject to a defined contribution plan under the new system. For these employees, the Company has to make a monthly contribution at a rate of no less than 6% of the employee's monthly salaries or wages to the employee's individual pension fund account with the ROC Bureau of Labor Insurance.

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ADVANCED ANALOG TECHNOLOGY, INC.**Notes to Financial Statements**

For the defined benefit plan under the ROC Labor Standards Law (the Plan), the Company performs an actuarial calculation of its pension obligation as of each fiscal year-end. Based on the actuarial calculation, the Company recognizes a minimum pension liability and periodic pension costs covering the service lives of the Plan participants, including current service cost, net obligation at transition, prior service cost, and pension gains or losses on a straight-line basis.

Under the new system, the Company contributes 6% of each employee's monthly wages to the Bureau of Labor Insurance. This contribution is recognized as pension cost for the period when the contribution is made.

(14) Treasury stock

The outstanding shares repurchased by the Company are recorded as treasury stock, and are carried at cost, the recovery price. Upon disposal, the excess of the selling price over the book value is recorded as a "capital surplus—treasury stock transaction". If the selling price is less than book value, the difference is charged against capital surplus from treasury stock, and any deficit is charged against retained earnings. The cost of treasury stock is calculated using the weighted-average method.

Upon retirement, the "capital stock" and "capital surplus—additional paid-in capital" are debited on a pro rata basis. If the book value exceeds the sum of the par value of capital stock and the premium on stock issuance, the difference is charged against capital surplus arising from the same class of treasury stock transactions, and the remainder, if any, is charged against retained earnings. If the book value is less than the sum of the par value of capital stock and the premium on stock issuance, the difference is credited to capital surplus arising from the same class of treasury stock transactions.

For treasury stock transferred to employees as an award, compensation cost is estimated at grant date using Black-Scholes option-pricing model. The compensation cost is amortized over the employees' vesting period. The grant date is determined based on the date at which the price and the number of shares of the treasury stock are certain. If approval of the price and the number of shares by the board of directors is required, the approval date would be the grant date.

(15) Revenue recognition

Revenue is recognized when title to the products, the risk of loss, and the rewards of ownership are transferred to the customers, which occurs principally at the time of shipment.

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ADVANCED ANALOG TECHNOLOGY, INC.**Notes to Financial Statements****(16) Employee bonuses and remuneration to directors**

Effective January 1, 2008, and in accordance with Interpretation No. (96)052 issued by the Accounting Research and Development Foundation, the Company estimates the amount of employee bonuses and remuneration to directors, and charges it to current operations, classified under cost of goods sold and operating expense, as appropriate. The difference, if any, between the amount approved by stockholders in the following year and the amount estimated in the current-year's financial statements is accounted for as a change in accounting estimate, and charged to profit or loss in the following year.

(17) Income taxes

Income taxes are accounted for under the asset and liability method. Deferred income taxes are determined based on differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect during the years in which the differences are expected to reverse. The income tax effects resulting from taxable temporary differences are recognized as deferred income tax liabilities. The income tax effects resulting from deductible temporary differences, net operating loss carryforwards, and income tax credits are recognized as deferred income tax assets. The realization of the deferred income tax assets is evaluated, and if it is considered more likely than not that the deferred tax assets will not be realized, a valuation allowance is recognized accordingly.

Classification of deferred income tax assets or liabilities as current or non-current is based on the classification of the related asset or liability. If the deferred income tax asset or liability is not directly related to a specific asset or liability, then the classification is based on the asset's or liability's expected period of realization.

The Company's purchase of equipment and expenditures for research, development and training entitle the Company to tax credits that are recognized by using the flow-through method.

According to the ROC Income Tax Act, the Company's undistributed income earned after March 31, 1997, is subject to an additional 10 percent corporate income surtax. This-surtax is recognized as income tax expense in the following year when the appropriation of earnings is approved by the stockholders.

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ADVANCED ANALOG TECHNOLOGY, INC.

Notes to Financial Statements

(18) Earnings per common share (“EPS”)

Basic EPS is computed by dividing net income by the weighted-average number of common shares outstanding during the year. The Company’s common stock to be issued for the conversion of bonds and employee bonuses to be settled through the issuance of stock upon approval by stockholders are considered potential common stock. When potential common stock is anti-dilutive, only the basic EPS is disclosed. Diluted EPS is disclosed in addition to basic EPS when potential common stock has dilutive effects. In computing for diluted EPS, net income and the weighted-average number of common shares outstanding during the year are adjusted for the effects of dilutive potential common stock, assuming potential dilutive common stock was outstanding during the year. Weighted-average outstanding shares are retroactively adjusted for the effects of stock dividends transferred from unappropriated earnings and capital surplus to common stock, and employee stock bonuses approved by stockholders in and prior to year 2008.

3. Reasons for and Effects of Accounting Changes

- (1) For the fiscal year beginning January 1, 2008, the Company adopted ROC SFAS No. 39 “Accounting for Share-based Payment” and Interpretation (96)052 issued by the Accounting Research and Development Foundation, to measure and to recognize employees’ bonuses and directors’ and supervisors’ remuneration, resulting in a decrease of NT\$44,068 thousand in net income and of NT\$1.13 in EPS for the year ended December 31, 2008. In accordance with Interpretation (96)169 issued by the Accounting Research and Development Foundation, both basic and diluted earnings per share for prior periods are no longer retroactively adjusted to reflect the effects of stock issued for employees’ bonuses. If there is a dilutive effect from the stock issued for employees’ bonuses, diluted EPS are calculated by dividing net income by the weighted-average number of common shares used in the basic EPS calculation plus the number of common shares issued for employees’ bonuses.
- (2) For the fiscal year beginning January 1, 2009, the Company adopted the newly revised ROC SFAS No. 10 “Accounting for Inventories”. The adoption of this new accounting principle disclosed no significant effect on net income and earnings per share for the year ended December 31, 2009.

4. Details of Significant Accounts

(1) Cash

	December 31,	
	2009	2008
Cash on hand; checking and savings accounts	\$ 98,446	83,033
Time deposits	<u>424,100</u>	<u>792,038</u>
	<u>\$ 522,546</u>	<u>875,071</u>

(Continued)

ADVANCED ANALOG TECHNOLOGY, INC.

Notes to Financial Statements

(2) Financial instruments

As of December 31, 2009 and 2008, the Company's financial instruments were as follows:

	<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>
Financial assets held-to-maturity – current:		
Investment in debt securities – note issued by Union Bank of Switzerland and Swiss Bank Aktiengesellschaft Public (“UBS AG”)	\$ <u>16,015</u>	<u>-</u>
(i) In 2009 and 2008, the Company entered into foreign currency forward contracts to hedge its foreign exchange exposure risks of assets. As these forward contracts did not meet the criteria for hedge accounting, these financial instruments were accounted for as financial instruments held for trading purposes. As of December 31, 2009 and 2008, there were no outstanding foreign currency forward contracts.		
(ii) In 2009 and 2008, the Company entered into foreign currency option and open-end mutual fund contracts primarily for trading purposes. As of December 31, 2009 and 2008, there were no outstanding foreign currency option or open-end mutual fund contracts.		
(iii) The financial assets held-to-maturity were purchased by the Company at par value of US\$50 thousand on November 3, 2009, which comprised 10 products of the 6-month USD-denominated fixed rate note issued by UBS AG, with maturity date of May 3, 2010 and effective interest rate of 1.41%.		
(iv) Convertible bonds issued by the Company were considered a hybrid instrument. The non-equity derivative instruments embedded in the convertible bonds were recorded as financial liabilities measured at fair value through profit or loss—noncurrent; refer to note 4(7) for further details.		

(3) Accounts receivable

	<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>
Accounts receivable	\$ 165,558	148,907
Allowance for doubtful accounts	<u>(1,656)</u>	<u>(1,489)</u>
	<u>\$ 163,902</u>	<u>147,418</u>

(Continued)

ADVANCED ANALOG TECHNOLOGY, INC.

Notes to Financial Statements

(4) Inventories

	<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>
Finished goods	\$ 33,769	33,975
Less: Provision for devaluation	<u>(1,927)</u>	<u>(3,603)</u>
	<u>31,842</u>	<u>30,372</u>
Work in process	24,367	31,776
Less: Provision for devaluation	<u>(2,519)</u>	<u>(2,776)</u>
	<u>21,848</u>	<u>29,000</u>
Raw materials	8,193	8,497
Less: Provision for devaluation	<u>(538)</u>	<u>(1,624)</u>
	<u>7,655</u>	<u>6,873</u>
	<u>\$ 61,345</u>	<u>66,245</u>

For the years ended December 31, 2009 and 2008, the components of cost of goods sold were as follows:

	<u>2009</u>	<u>2008</u>
Cost of goods sold	\$ 492,133	639,841
Loss on inventory obsolescence	6,284	2,880
Gain from price recovery of inventory	(3,019)	(1,509)
Revenue from sale of scraps	<u>(611)</u>	<u>-</u>
	<u>\$ 494,787</u>	<u>641,212</u>

(5) Property, plant and equipment

In 2009, the capitalized interest relating to the acquisition of real property amounted to NT\$987 thousand. The rate of capitalized interest was 1.68%.

(Continued)

ADVANCED ANALOG TECHNOLOGY, INC.

Notes to Financial Statements

(6) Intangible assets

The movements of intangible assets for the years ended December 31, 2009 and 2008, were as follows:

	<u>Trademarks</u>	<u>Patents</u>	<u>Computer software</u>
Original cost:			
Balance at December 31, 2008	\$ 126	7,704	25,684
Additions	-	-	7,829
Internally developed by the Company	<u>3</u>	<u>1,874</u>	<u>-</u>
Balance at December 31, 2009	<u>\$ 129</u>	<u>9,578</u>	<u>33,513</u>
Balance at December 31, 2007	\$ 110	2,762	24,963
Additions	-	-	721
Internally developed by the Company	<u>16</u>	<u>4,942</u>	<u>-</u>
Balance at December 31, 2008	<u>\$ 126</u>	<u>7,704</u>	<u>25,684</u>
Accumulated amortization:			
Balance at December 31, 2008	\$ 32	1,708	11,443
Amortization	<u>63</u>	<u>4,440</u>	<u>6,153</u>
Balance at December 31, 2009	<u>\$ 95</u>	<u>6,148</u>	<u>17,596</u>
Balance at December 31, 2007	\$ -	-	7,024
Amortization	<u>32</u>	<u>1,708</u>	<u>4,419</u>
Balance at December 31, 2008	<u>\$ 32</u>	<u>1,708</u>	<u>11,443</u>
Book value:			
Balance at December 31, 2009	<u>\$ 34</u>	<u>3,430</u>	<u>15,917</u>
Balance at December 31, 2008	<u>\$ 94</u>	<u>5,996</u>	<u>14,241</u>

(7) Bonds payable

The Company issued domestic convertible bonds (the Bonds) at par value. The significant terms of these Bonds are as follows:

- A. Amount issued: NT\$150,000 thousand
- B. Period: two years (from June 25, 2008, to June 25, 2010)
- C. Coupon rate: 0%

(Continued)

ADVANCED ANALOG TECHNOLOGY, INC.**Notes to Financial Statements****D. Redemption:**

- (a) The Company may redeem outstanding bonds at par value and in cash from one month after issuance to 40 days before maturity, if the closing price of its common stock is higher than 50% of the conversion price for 30 consecutive trading days, subject to notice to bondholders of no less than 30 days.
- (b) The Company may redeem outstanding bonds, from one month after issuance to 40 days before maturity, at par and in cash, if the total amount of outstanding bonds is less than 10% of the amount issued.

E. Conversion price reset:

Other than adjustment pursuant to the antidilution provision set out in the indenture, the conversion price is subject to a price reset when the average closing price of common stock is less than or equal to 90% of the conversion price for 20 consecutive trading days.

The reset date is defined as the first day after the period of 20 consecutive trading days. The conversion price may be adjusted downward pursuant to the conversion premium (101%) multiplied by the lowest average closing price among the one, three, or five consecutive trading days before the reset date. The adjusted conversion price should be higher than the average closing price as aforementioned and should not be less than 80% of the initial conversion price.

Pursuant to the terms of reset in the indenture, the conversion price could not be reset from six months after issuance to 30 days before maturity. Meanwhile, the reset of the conversion price is limited to once in each fiscal year and does not apply to those bondholders who declare the conversion right before the reset date.

F. Conversion:

- (a) Conversion period: Bondholders may convert bonds into common shares of the Company at any time from one month after issuance to 10 days before maturity.
- (b) Conversion price and adjustment:

The initial conversion price was NT\$126 per share of common stock, and will be subject to adjustment upon the occurrence of certain events:

- (i) the Company issues additional common shares (including but not limited to injecting capital in the form of a public offering or private placement, issuing a stock dividend and/or bonus shares to employees, issuing new shares in a combination or share-swap transaction, and issuing GDRs)

(Continued)

ADVANCED ANALOG TECHNOLOGY, INC.

Notes to Financial Statements

- (ii) the Company distributes cash dividends to shareholders in an amount exceeding 1.5% of the prevailing market price (not applicable to bondholders declaring the conversion right prior to the ex-dividend date)
- (iii) the Company grants or offers to shareholders/investors the right to subscribe or purchase new shares for consideration per common share below the prevailing market price
- (iv) the Company decreases its capital (excluding the retirement of treasury stock)

Effective December 25, 2008, the conversion price was adjusted to NT\$95.9 per common share. After July 1, 2009, the conversion price was adjusted to NT\$88.7 per common share.

(c) Conversion status

As of December 31, 2009, no convertible bond had been converted.

Pursuant to ROC SFAS No. 36 “Financial Instruments: Disclosure and Presentation”, the Company bifurcated the conversion feature from the liability elements when the convertible bonds were issued and recorded them as equity and liability, respectively. The related information is as follows:

	<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>
Total amount of convertible bonds	\$ 150,000	150,000
Discount of bonds payable	(1,281)	(4,297)
Cumulative amount of redemption	<u>(95,700)</u>	<u>(66,400)</u>
Ending balance of bonds payable	<u>\$ 53,019</u>	<u>79,303</u>
Equity element—conversion options	<u>\$ 81</u>	<u>125</u>
	<u>2009</u>	<u>2008</u>
Interest expense	<u>\$ 1,349</u>	<u>1,392</u>

The Company redeemed the convertible bonds from the public market at NT\$28,741 thousand and NT\$65,048 thousand in 2009 and 2008, respectively. For the years ended December 31, 2009 and 2008, gains (losses) on redemption of bonds amounted to NT\$(94) thousand and NT\$845 thousand, respectively, and was recognized as other income (losses).

(Continued)

ADVANCED ANALOG TECHNOLOGY, INC.

Notes to Financial Statements

Changes to the liability element—price reset option for the aforementioned bonds were as follows:

	<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>
Amount initially recognized	\$ 3,255	3,255
Cumulative gain on valuation	(677)	(677)
Less: Redemption of convertible bonds	(1,441)	(1,441)
Adjustment to capital surplus	(1,137)	(1,137)
Fair value of price reset option	<u>\$ -</u>	<u>-</u>

(8) Retirement plan

The Company uses the balance sheet date as the measurement date for its defined benefit plan. The funded status was reconciled with the amount of prepaid (accrued) pension recorded in the accounts as of December 31, 2009 and 2008 as follows:

	<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>
Benefit obligation:		
Vested benefit obligation	\$ -	-
Non-vested benefit obligation	(4,662)	(4,316)
Accumulated benefit obligation	(4,662)	(4,316)
Projected future salary increase	(2,737)	(5,320)
Projected benefit obligation	(7,399)	(9,636)
Fair value of plan assets	6,756	5,288
Funded status	(643)	(4,348)
Unrecognized pension loss	(562)	1,841
Unrecognized net transition obligation	1,205	3,085
Additional minimum pension liability	-	-
Prepaid pension cost (Accrued pension liability)	<u>\$ -</u>	<u>578</u>

Significant actuarial assumptions were as follows:

	<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>
Discount rate	2.25%	2.50%
Rate of increase in future compensation levels:		
In the next year	3.00%	0.00%
Thereafter	3.00%	5.00%
Expected long-term rate of return on plan assets	2.25%	2.50%

(Continued)

ADVANCED ANALOG TECHNOLOGY, INC.

Notes to Financial Statements

The components of the Company's net periodic pension costs for the years ended December 31, 2009 and 2008, consisted of the following:

	<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>
Defined benefit plan:		
Interest cost	\$ 241	240
Actual returns on plan assets	(39)	(142)
Amortization	107	-
Additional pension cost	<u>1,698</u>	<u>220</u>
Net periodic pension cost	<u>\$ 2,007</u>	<u>318</u>
Defined contribution plan	<u>\$ 4,161</u>	<u>4,040</u>

(9) Stockholders' equity

A. Common stock

Pursuant to a stockholders' resolution on May 27, 2008, the Company increased its common stock by NT\$18,691 thousand, at par value of NT\$10.00 per share, through the capitalization of dividends and employees' bonuses of NT\$12,861 thousand and NT\$5,830 thousand, respectively. The board of directors decided to set a record date of July 22, 2008, for the distribution of the aforementioned stock dividends and employees' bonuses. The capital increase was approved by and registered with the governmental authorities on June 20 and August 6, 2008, respectively.

As of December 31, 2009 and 2008, the authorized capital amounted to NT\$600,000 thousand (including NT\$90,000 thousand and NT\$14,000 thousand reserved for employee stock options, respectively), and the issued capital both amounted to NT\$398,261 thousand. The par value of the Company's common stock is NT\$10.00 per share.

B. Capital surplus

The components of capital surplus were as follows:

	<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>
Additional paid-in capital	\$ 379,452	379,452
Redemption of convertible bonds	144	100
Conversion options of convertible bonds	81	125
Conversion price reset of bonds payable	<u>1,137</u>	<u>1,137</u>
	<u>\$ 380,814</u>	<u>380,814</u>

(Continued)

ADVANCED ANALOG TECHNOLOGY, INC.**Notes to Financial Statements**

Pursuant to the ROC Company Act, capital surplus can only be used to offset a deficit and cannot be used to declare cash dividends. However, capital surplus derived from additional paid-in capital and donations (donated capital) can be used to increase share capital if there is no accumulated deficit. According to the Enforcement Rules of the Securities and Exchange Law, the total sum of capitalizable capital surplus annually may not exceed 10 percent of the issued capital. Additionally, the capital surplus generated from a capital increase could be capitalized only in the following fiscal year after the capital increase is registered with the competent authority.

For the information relating to conversion options of convertible bonds recorded in capital surplus, please refer to note 4(7).

C. Distribution of earnings and dividend policy

Based on a stockholders' resolution on May 27, 2008, the Company eliminated the position of supervisors and set up an audit committee. In addition, based on a stockholder resolution on May 27, 2009, the Company revised its articles of incorporation. According to the revised articles of incorporation, 10% of its net income, after offsetting any accumulated deficit, shall be set aside as legal reserve until legal reserve is equal to issued capital, and an amount equal to the deduction item in stockholders' equity shall be set aside as special reserve according to ROC securities regulations. A portion of the remainder can be retained for necessary working capital, and the balance shall be appropriated as follows:

- (a) No less than 5% as bonuses to employees.
- (b) 2% as remuneration to directors.
- (c) After the above appropriations, the Company retains a portion of remaining earnings (including beginning balances) before being distributed to stockholders. Earnings distributions are proposed by the board of directors and approved at the stockholders' meeting.

The distribution of employees' bonuses may include the employees of the Company's subsidiaries under the conditions set by the board of directors.

The Company's dividend policy considers the current operating situation, based on the principle of dividend stability and considering factors such as the future investment environment, fund requirements, domestic and international competition, the benefit to stockholders and long-term financial planning. Distribution of profits could be made in the form of both stock dividends and cash dividends. The cash dividends should not be less than 10% of the total dividends. (Before being revised, the dividend policy was to consider business growth and financial planning, with distribution of profits made preferably in the form of stock dividends, accompanied by cash dividends. The stock dividends shall not exceed 80% of total dividends.)

(Continued)

ADVANCED ANALOG TECHNOLOGY, INC.

Notes to Financial Statements

Employee bonuses and remuneration to directors for the years ended December 31, 2009 and 2008, were computed at 25% and 2%, respectively, based on the Company's net income for the years ended December 31, 2009 and 2008, after setting aside 10% as legal reserve. Accordingly, the Company recognized employee bonuses of NT\$25,899 thousand and NT\$58,900 thousand and remuneration to directors of NT\$2,072 thousand and NT\$4,700 thousand, respectively. The number of common shares to be issued as employees' bonuses will be computed based on the closing price of the Company's common stock on the day before the stockholders' meeting, taking into consideration the effects of any dividend announcement and rights offering. The percentages used to compute employee bonuses and remuneration to directors above considered actual distributions approved by stockholders in prior years and the Company's current operations. The difference, if any, between the amount approved by stockholders in the subsequent year and the amount estimated in the current-year financial statements shall be accounted for as a change in accounting estimate, and charged to profit or loss in the following year.

Employee bonuses and remuneration to directors and supervisors distributed from earnings for fiscal years 2008 and 2007, as approved in the stockholders' meetings on May 27, 2009, and May 27, 2008, respectively, were as follows:

	2008	2007
Employee bonuses – common stock	\$ -	5,830
Employee bonuses – cash	58,668	38,712
Remuneration to directors and supervisors	4,693	5,978
	\$ 63,361	50,520

The aforementioned distributions of earnings were consistent with the resolutions approved by the board of directors. The difference of NT\$239 thousand between the amount approved by stockholders and the amount estimated in the current-year financial statements was charged to profit or loss in 2009.

The stock issuance dates, ex-rights and ex-dividends, for 2008 and 2007 were set on July 1 2009, and July 22, 2008, respectively.

The amount of employee bonuses and remuneration to directors of the Company to be distributed from the earnings of 2009 is subject to the proposal of the board of directors and the approval of the stockholders. The related information on the distribution of these earnings can be found in the Market Observation Post System after the above-mentioned meetings.

D. Treasury stock

The Company purchased its outstanding shares on the Gre Tai Securities Market as treasury stock.

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ADVANCED ANALOG TECHNOLOGY, INC.

Notes to Financial Statements

Changes in the number of treasury stock, classified by the purpose of acquisition, were as follows:

(Unit: thousand of shares)

<u>Reason for purchase</u>	2009			
	<u>Opening balance</u>	<u>Addition</u>	<u>Disposition</u>	<u>Ending balance</u>
For transfer to employees	\$ 111	-	-	111
For the conversion of the 2 nd unsecured convertible bonds	<u>1,100</u>	<u>-</u>	<u>-</u>	<u>1,100</u>
	<u>\$ 1,211</u>	<u>-</u>	<u>-</u>	<u>1,211</u>
	2008			
<u>Reason for purchase</u>	<u>Opening balance</u>	<u>Addition</u>	<u>Disposition</u>	<u>Ending balance</u>
For transfer to employees	\$ 111	-	-	111
For the conversion of the 2 nd unsecured convertible bonds	<u>-</u>	<u>1,100</u>	<u>-</u>	<u>1,100</u>
	<u>\$ 111</u>	<u>1,100</u>	<u>-</u>	<u>1,211</u>

Based on a board of directors' resolution on May 27, 2008, the Company resolved to change the purpose of the Company's second purchase of treasury stock from use for employees' bonuses to use for convertible bonds. As a result, the Company's purchase of 1,078 thousand shares in the first quarter of 2008 which were originally intended for use for employees' bonuses was changed to use for convertible bonds.

Pursuant to the Securities and Exchange Act, the number of shares of treasury stock purchased by the Company cannot exceed 10% of the issued capital, and the total amount of treasury stock cannot exceed the sum of unappropriated earnings, additional paid-in capital, and realized capital surplus. Prior to the purchase of treasury stock in accordance with the board of directors' resolution, the Company determined that the number of shares and total amount of treasury stock did not exceed the limits stated above, based upon the most recently audited financial statements.

According to the Securities and Exchange Act, treasury stock held by the Company cannot be pledged and shareholder rights are restricted before the treasury stock is transferred.

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ADVANCED ANALOG TECHNOLOGY, INC.

Notes to Financial Statements

(10) Income tax

The Company is primarily involved in the design and manufacture of high-end ICs and has undergone several capital increases and expansions. The Company's investments in an "important technology-based industry" and an "emerging, important, and strategic industry," as prescribed under the Statute for Upgrading Industries, entitled the Company to elect appropriate tax incentives, such as an income tax exemption over a period of five years or tax credits for its stockholders.

As of December 31, 2009, the Company is entitled to the following tax incentives:

<u>Year of investment</u>	<u>Applicable law</u>	<u>Selected tax incentive</u>	<u>Approval by the Ministry of Finance</u>	<u>Tax exemption period</u>
Initial investment in incorporation	Important technology-based industry	Tax credit for stockholders	—	—
Capital increase in year 2002	Emerging, important, and strategic industry	Tax exemption from corporate income taxes for five years	October 2004	2004.01.01~2008.12.31
Capitalization of retained earnings and employee bonuses in year 2005	Emerging, important, and strategic industry	Tax exemption from corporate income taxes for five years	September 2008	2009.01.01~2013.12.31
Capital increase in year 2006, and capitalization of retained earnings and employee bonuses in year 2006	Emerging, important, and strategic industry	Tax exemption from corporate income taxes for five years	—	Related project has not been completed

(Continued)

ADVANCED ANALOG TECHNOLOGY, INC.

Notes to Financial Statements

The components of income tax expense (benefit) were as follows:

	<u>2009</u>	<u>2008</u>
Current	\$ 19,158	5,275
Deferred	<u>(7,657)</u>	<u>(19,950)</u>
	<u>\$ 11,501</u>	<u>(14,675)</u>

The Company is currently subject to income tax at statutory rate of 25%. Effective from January 1, 2006, the ROC government enacted the Income Basic Tax Act. On May 27, 2009, pursuant to the revised Income Tax Act, the statutory income tax rate applicable to the Company will be reduced from 25% to 20% starting from 2010. The income tax calculated on pre-tax financial income was reconciled with income tax expense (benefit) reported in the statements of income as follows:

	<u>2009</u>	<u>2008</u>
Expected income tax expense	\$ 31,652	61,518
Effect of tax-exempt income	-	(46,468)
Change in investment tax credits	(25,275)	(36,787)
Change in valuation allowance	(6,000)	6,000
Adjustment for over-(under-) provision in prior years and others	6,552	1,062
Tax on undistributed retained earnings	4,160	-
Effect of tax rate adjustment	<u>412</u>	<u>-</u>
Income tax expense (benefit)	<u>\$ 11,501</u>	<u>(14,675)</u>

The components of deferred income tax assets (liabilities) as of December 31, 2009 and 2008, were as follows:

	<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>
Deferred tax assets—current:		
Investment tax credits	\$ 13,007	6,801
Provision for inventory devaluation	997	2,001
General allowance for bad debt losses	-	372
Unrealized exchange loss and others	<u>652</u>	<u>(117)</u>
	<u>\$ 14,656</u>	<u>9,057</u>

(Continued)

ADVANCED ANALOG TECHNOLOGY, INC.

Notes to Financial Statements

	<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>
Deferred tax assets—noncurrent:		
Investment tax credits	\$ 32,699	36,642
Valuation allowance	-	(6,000)
	<u>\$ 32,699</u>	<u>30,642</u>
Total gross deferred tax assets	<u>\$ 47,355</u>	<u>45,816</u>
Total gross deferred tax liabilities	<u>\$ -</u>	<u>117</u>
Total valuation allowance	<u>\$ -</u>	<u>6,000</u>

The Company is entitled to investment tax credits arising from research and development expenditures pursuant to the Statute for Upgrading Industries. The investment tax credits may be applied over a period of five years to offset against income tax payable. The amount of tax credits available to be applied in any year is limited to 50% of the income tax payable for that year, except for the final year in which such tax credits expire. As of December 31, 2009, unused tax credits and their respective years of expiration were as follows:

<u>Year earned</u>	<u>Expiration year</u>	<u>Unused tax credits</u>
2007 (assessed)	2011	\$ 6,091
2008 (declared)	2012	14,340
2009 (estimated)	2013	<u>25,275</u>
		<u>\$ 45,706</u>

Information related to the imputation credit account (ICA) was as follows:

	<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>
Unappropriated retained earnings:		
Earned after January 1, 1998	<u>\$ 156,703</u>	<u>260,748</u>
ICA balance	<u>\$ 1,826</u>	<u>4,528</u>
	<u>2009</u>	<u>2008</u>
	(estimated)	(actual)
Creditable ratio for earnings distribution to resident stockholders	<u>12.23%</u>	<u>2.86%</u>

As of December 31, 2009, the Company's income tax returns through 2007 had been examined by the tax authorities.

(Continued)

ADVANCED ANALOG TECHNOLOGY, INC.

Notes to Financial Statements

(11) Earnings per common share

Earnings per common share (“EPS”) for years 2009 and 2008 were computed as follows:

	<u>2009</u>	<u>2008</u>
Basic EPS:		
Net income	\$ <u>115,105</u>	<u>260,748</u>
Weighted-average number of common shares outstanding (in thousands of shares)	<u>38,615</u>	<u>38,888</u>
Basic EPS (New Taiwan dollars)	\$ <u>2.98</u>	<u>6.71</u>
Diluted EPS:		
Net income	\$ 115,105	260,748
Adjustment to interest expense from the effects of potential common stock	<u>1,012</u>	<u>1,044</u>
	\$ <u>116,117</u>	<u>261,792</u>
Effects of dilutive potential common stock:		
Weighted-average number of common shares outstanding (in thousands of shares)	38,615	38,888
Potential common stock	<u>1,245</u>	<u>2,214</u>
Weighted-average number of common shares outstanding used in the computation of diluted EPS (in thousands of shares)	<u>39,860</u>	<u>41,102</u>
Diluted EPS (New Taiwan dollars)	\$ <u>2.91</u>	<u>6.37</u>

(12) Additional disclosures on financial instruments

- A. The carrying amounts of the Company’s non-derivative financial assets and liabilities, including notes and accounts receivable, other financial assets—current, and notes and accounts payable approximate their fair value due to the short-term maturity periods of these items.
- B. If a published price quotation in an active market exists for a financial instrument, the quoted price is used to measure its fair value. If it does not exist, the fair value is measured by using a valuation technique. In applying valuation techniques, an entity uses estimates and assumptions that are consistent with the estimates and assumptions that market participants would use in setting a price for the financial instrument. This method was used to estimate the fair value of bonds payable and financial assets and liabilities at fair value through profit or loss.

(Continued)

ADVANCED ANALOG TECHNOLOGY, INC.

Notes to Financial Statements

- C. The fair values of the Company's financial assets and liabilities determined using a quoted market price, if available, or a valuation technique were as follows:

	December 31,			
	2009		2008	
	<u>Market price</u>	<u>Valuation technique</u>	<u>Market price</u>	<u>Valuation technique</u>
Financial assets:				
Cash and cash equivalents	\$ 522,546	-	875,071	-
Financial assets held-to-maturity				
–current	-	16,015	-	-
Accounts receivable	-	163,902	-	147,418
Other financial assets–current	774	-	511	-
Guarantee deposits–out	1,230	-	2,595	-
Financial liabilities:				
Accounts payable	-	64,361	-	24,467
Corporate bonds payable–current	-	53,019	-	-
Bonds payable	-	-	-	79,303

- D. Information on financial risks:

(a) Market risk

The Company's sales and purchase transactions are primarily denominated in US dollars, and as a result, the Company's cash flows from foreign currency denominated assets and liabilities are exposed to the risk of fluctuations in foreign currency.

(b) Credit risk

The Company's potential credit risk is derived primarily from cash and accounts receivable. The Company maintains its cash in various financial institutions. The Company monitors its exposure with these financial institutions; therefore, management believes that there is no significant credit risk of cash.

The majority of the Company's customers are involved in the electronics industry. The Company's accounts receivable attributable to the top three customers represented 68% and 67% of the total balance of accounts receivable as of December 31, 2009 and 2008, respectively. As a result, there is a concentration of credit risk in accounts receivable. To limit the Company's credit risk, the Company performs periodic evaluations of the financial strength of its customers and reviews the collectibility of accounts receivable. To date, the collection history of the Company's accounts receivable has been favorable, and management does not expect this concentration to have significant impact on the Company.

(Continued)

ADVANCED ANALOG TECHNOLOGY, INC.

Notes to Financial Statements

(c) Liquidity risk

The Company has sufficient capital and working capital to meet its contractual obligations, and therefore, management believes that there is no significant liquidity risk.

5. Related-party Transactions

(1) Names and relationships of related parties

<u>Name of related party</u>	<u>Relationship with the Company</u>
All directors and supervisors, the president, and the vice president	The Company's principal management team

(2) Compensation to the principal management team

	<u>2009</u>	<u>2008</u>
Salaries	\$ 8,133	8,910
Bonus and others	1,031	315
Employee bonuses	7,500	7,300
Remuneration to directors	2,072	4,700

For the aforementioned distributions related to the remuneration to directors and employee bonuses, please refer to note 4(9) "stockholders' equity".

6. Pledged Assets

Assets pledged as collateral as of December 31, 2009 and 2008, were as follows:

<u>Assets pledged</u>	<u>Purpose</u>	<u>December 31,</u>	
		<u>2009</u>	<u>2008</u>
Time deposit (recorded under other financial assets – current)	Guarantees for customs duty on imports	\$ <u>520</u>	<u>511</u>

(Continued)

ADVANCED ANALOG TECHNOLOGY, INC.

Notes to Financial Statements

7. Commitments and Contingencies

- (1) The Company entered into an operating lease for office premises. As of December 31, 2009, future minimum lease payments under the existing lease agreement were as follows:

<u>Period</u>	<u>Amount</u>
2010.01.01~2010.12.31	\$ <u>2,421</u>

- (2) For the purpose of use in future operations, the Company purchased real estate from Reform Real Estate Developments Ltd. for a total amount of NT\$235,000 thousand in May 2009. The aforementioned real estate had been inspected and handed over to the Company in October 2009, and the total prepayment for building and equipment had been reclassified into land and building.
- (3) The Company entered into a decoration construction agreement with Chien Ming Construction Co., Ltd. for a total contract price of NT\$15,760 thousand (including Business Tax). As of December 31, 2009, the Company had paid NT\$13,500 thousand (including Business Tax), which was accounted for as prepayment for construction and equipment. The remaining balance of NT\$2,260 thousand is payable upon completion of decoration construction and final inspection.

8. Other Disclosures

- (1) Personnel, depreciation and amortization expenses were classified by function as follows:

	For the years ended December 31,					
	2009			2008		
	Cost of goods sold	Operating expenses	Total	Cost of goods sold	Operating expenses	Total
Personnel expense						
Salary	\$ 16,894	100,991	117,885	22,299	121,188	143,487
Labor and health insurance	994	5,265	6,259	940	4,902	5,842
Pension	988	5,180	6,168	696	3,662	4,358
Others	382	2,072	2,454	380	1,856	2,236
Depreciation	1,223	5,573	6,796	1,816	4,357	6,173
Amortization	3,676	10,719	14,395	2,031	6,348	8,379

- (2) Reclassifications

Certain amounts in the 2008 financial statements have been reclassified to conform to the current-year presentation. These reclassifications did not have a material impact on the financial statements.

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ADVANCED ANALOG TECHNOLOGY, INC.

Notes to Financial Statements

9. Segment Financial Information

(1) Industry segment information

The Company consists of a single reportable operating segment, namely, the design, research, development, manufacture and sale of analog ICs. The Company did not set up any foreign operating segment.

(2) Export sales

Export sales were as follows:

	<u>2009</u>		<u>2008</u>	
	<u>Amount</u>	<u>% of total sales</u>	<u>Amount</u>	<u>% of total sales</u>
Asia	<u>\$ 230,692</u>	<u>29</u>	<u>346,206</u>	<u>32</u>

(3) Major customers

Sales to individual customers representing greater than 10% of the Company's total sales were as follows:

	<u>2009</u>		<u>2008</u>	
	<u>Amount</u>	<u>% of total sales</u>	<u>Amount</u>	<u>% of total sales</u>
A	\$ 299,233	37	436,976	41
B	168,313	21	151,426	14
C	80,428	10	31,050	3
D	55,015	7	127,239	12
	<u>\$ 602,989</u>	<u>75</u>	<u>746,691</u>	<u>70</u>