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

Amendment No. 1 to

Form 10 - KSB

(Mark One)

x ANNUAL REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Period year ended June 30th, 2009

o TRANSITION REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _______________ to ____________________

Commission file number: 000-51974

Baying Ecological Holding Group Inc.
formerly known as
Toro Ventures Inc.
(Exact name of small business issuer as specified in its charter)

Nevada (State or other jurisdiction of incorporation or organization)	N/A (IRS Employer Number)

850 Stephenson Highway, Suite 310
Troy, Michigan 48083
(Address of principal executive office)

310-887-6391
(Issuer's telephone number)

Toro Ventures Inc.
22837 Pacific Coast Highway, Suite 632
Malibu, California 90265
(Former name, former address and former fiscal year, if changed since last report)

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act: Common Stock, $0.001

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x   No o

Check if there is no disclosure of delinquent filers in response to Item 405 Regulation S-B is not containing in this form, and no disclosure will be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendments to this Form 10-KSB o

Indicate by check mark whether the company is a shell company (as defined in Rule12b-2 of the Exchange Act) Yes o   No x

State issuer's revenues for its most recent fiscal year - $0

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of a specified date within the past 60 days. (See definition of affiliate in Rule 12b-2 of the Exchange Act.)

Aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference as of June 10, 2013 is $128,760.

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date.

As of June 10, 2013 there are 16,095,000 common shares outstanding.

Transitional Small Business Disclosure Format (Check One): Yes o   No x

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On February 12, 2014, Toro Ventures Inc., now known as Baying Ecological Holding Group Inc., a Nevada corporation (the "Company") received a comment letter from the Securities and Exchange Commission regarding its filing of Form 10-K for fiscal year ended June 30, 2013 (the "SEC Comment Letter"). The SEC Comment Letter noted that the Company previously filed eighteen periodic reports on June 18, 2013 covering our fiscal years 2009 through 2013 (collectively, the "SEC Reports"). The SEC Reports were filed by prior management and reflected that the Company believed it was an "inactive entity" as defined in Rule 3-11 of Regulation S-X and therefore did not need to provide audited or reviewed financial statements with its filings. The Company had not engaged an independent accountant to audit or review its financials.

Therefore, the new Board of Directors of the Company engaged Terry L. Johnson, CPA ("Johnson") as its principal independent registered public accounting firm effective March 24, 2014. The decision to appoint Johnson as the Company's principal independent registered public accounting firm was approved by the Company’s Board of Directors. The Company is re-filing the SEC Reports with audited and/or reviewed financial statements, respectively, including this Annual Report on Form 10-K for fiscal year ended June 30, 2009.

PART I

Item 1. Description of Business

Toro Ventures Inc. is in the acquisition and exploration of oil and gas properties. Toro Ventures Inc. was incorporated in the state of Nevada on April 11, 2005. Our principal office is located at Suite 632, 22837 Pacific Coast Highway, Malibu, California, 90265. Our telephone number is 310-887-6391

Business

Our business strategy is to acquire interest in the properties of, and working interests in the production owned by, established oil and gas production companies, whether public or private, in the United States oil producing areas. We believe such opportunities exist in the United States. We also believe that these opportunities have considerable future potential for the development of additional oil reserves. Such new reserves might come from the development of existing but as yet undeveloped reserves as well as from future success in exploration.

When and if funding becomes available, we plan to acquire high-quality oil and gas properties, primarily properties which have "proven producing and proven undeveloped reserves." We will also explore low-risk development drilling and work-over opportunities with experienced, well-established operators.

Competition

Toro Ventures Inc. operates in a highly competitive environment. We compete with major and independent oil and natural gas companies, many of whom have financial and other resources substantially in excess of those available to us. These competitors may be better positioned to take advantage of industry opportunities and to withstand changes affecting the industry, such as fluctuations in oil and natural gas prices and production, the availability of alternative energy sources and the application of government regulation.

Compliance with Government Regulation

The availability of a market for future oil and gas production from possible U.S. assets will depend upon numerous factors beyond our control. These factors may include, amongst others, regulation of oil and natural gas production, regulations governing environmental quality and pollution control, and the effects of regulation on the amount of oil and natural gas available for sale, the availability of adequate pipeline and other transportation and processing facilities and the marketing of competitive fuels. These regulations generally are intended to prevent waste of oil and natural gas and control contamination of the environment.

We expect that our sales of crude oil and other hydrocarbon liquids from our future U.S.-based production will not be regulated and will be made at market prices. However, the price we would receive from the sale of these products may be affected by the cost of transporting the products to market via pipeline and marine transport.

Environmental Regulations

Our U.S. assets could be subject to numerous laws and regulations governing the discharge of materials into the environment or otherwise relating to environmental protection. These laws and regulations may require the acquisition of a permit before drilling commences, restrict the types, quantities and concentration of various substances that can be released into the environment in connection with drilling and production activities, limit or prohibit drilling activities on certain lands within wilderness, wetlands and other protected areas, require remedial measures to mitigate pollution from former operations, such as pit closure and plugging abandoned wells, and impose substantial liabilities for pollution resulting from production and drilling operations. Public interest in the protection of the environment has increased dramatically in recent years. The worldwide trend of more expansive and stricter environmental legislation and regulations applied to the oil and natural gas industry could continue, resulting in increased costs of doing business and consequently affecting profitability. To the extent laws are enacted or other governmental action is taken that restricts drilling or imposes more stringent and costly waste handling, disposal and cleanup requirements, our business and prospects could be adversely affected.

Operating Hazards and Insurance

The oil and natural gas business involves a variety of operating hazards and risks such as well blowouts, craterings, pipe failures, casing collapse, explosions, uncontrollable flows of oil, natural gas or well fluids, fires, formations with abnormal pressures, pipeline ruptures or spills, pollution, releases of toxic gas and other environmental hazards and risks. These hazards and risks could result in substantial losses to us from, among other things, injury or loss of life, severe damage to or destruction of property, natural resources and equipment, pollution or other environmental damage, clean-up responsibilities, regulatory investigation and penalties and suspension of operations.

In accordance with customary industry practices, we expect to maintain insurance against some, but not all, of such risks and losses. There can be no assurance that any insurance we obtain would be adequate to cover any losses or liabilities. We cannot predict the continued availability of insurance or the availability of insurance at premium levels that justify its purchase. The occurrence of a significant event not fully insured or indemnified against could materially and adversely affect our financial condition and operations.

Pollution and environmental risks generally are not fully insurable. The occurrence of an event not fully covered by insurance could have a material adverse effect on our future financial condition. If we were unable to obtain adequate insurance, we could be forced to participate in all of our activities on a non-operated basis, which would limit our ability to control the risks associated with oil and natural gas operations.

Employees

We currently do not have any other employees other than the Toro's sole officer and director.

Item 1A. Risk Factors

We are in the oil business and we expect to incur operating losses for the foreseeable future.

We were incorporated on April 11, 2005 and to date have recently been involved in the organizational activities, and acquisition of our claims. We have no way to evaluate the likelihood that our business will be successful. We have earned minimal revenues as of the date of this annual report. Potential investors should be aware of the difficulties normally encountered by exploration companies and the high rate of failure of such enterprises. The likelihood of success must be considered in light of the problems, expenses, difficulties, complications and delays encountered in connection with the exploration and development of the properties that we plan to undertake. These potential problems include, but are not limited to, unanticipated problems relating to exploration, and additional costs and expenses that may exceed current estimates. Prior to completion of our exploration stage, we anticipate that we will incur increased operating expenses without greatly increasing our revenues. We expect to incur significant losses into the foreseeable future. We recognize that if production is not forthcoming, we will not be able to continue business operations. There is no history upon which to base any assumption as to the likelihood that we will prove successful, and it is doubtful that we will generate significant revenues to achieve profitable operations. If we are unsuccessful in addressing these risks, our business will most likely fail.

We have yet to earn significant revenue to achieve profitability and our ability to sustain our operations is dependent on our ability to raise additional financing to complete our program if warranted. As a result, our accountant believes there is substantial doubt about our ability to continue as a going concern.

We have accrued accumulated net losses of $690,287 for the period from inception (April 11, 2005) to June 30, 2009 and have revenues of $Nil to date. Our future is dependent upon our ability to obtain financing and upon future profitable operations from the development of our business. These factors raise substantial doubt that we will be able to continue as a going concern. Our independent auditors, has expressed substantial doubt about our ability to continue as a going concern. This opinion could materially limit our ability to raise additional funds by issuing new debt or equity securities or otherwise. If we fail to raise sufficient capital when needed, we will not be able to complete our business plan. As a result we may have to liquidate our business and you may lose your investment. You should consider our auditor's comments when determining if an investment in our company is suitable.

Because of the unique difficulties and uncertainties inherent in oil and gas ventures, we face a high risk of business failure.

You should be aware of the difficulties normally encountered by exploration companies and the high rate of failure of such enterprises. The likelihood of success must be considered in light of the problems, expenses, difficulties, complications and delays encountered in connection with the exploration and development of the properties that we plan to undertake. These potential problems include, but are not limited to, unanticipated problems relating to exploration, and additional costs and expenses that may exceed current estimates. If the results of our development program do not reveal viable commercialization options, we may decide to abandon our claim and acquire new claims. Our ability to acquire additional claims will be dependent upon our possessing adequate capital resources when needed. If no funding is available, we may be forced to abandon our operations.

Because of the inherent dangers involved in oil and gas operations, there is a risk that we may incur liability or damages as we conduct our business.

The extracting of oil and gas involves numerous hazards. As a result, we may become subject to liability for such hazards, including pollution, cave-ins and other hazards against which we cannot insure or against which we may elect not to insure. At the present time we have no insurance to cover against these hazards. The payment of such liabilities may result in our inability to complete our planned program and/or obtain additional financing to fund our program.

As we undertake development of our properties, we will be subject to compliance with government regulation that may increase the anticipated cost of our program.

There are several governmental regulations that materially restrict oil extraction. We will be subject to regulations and laws as we carry out our program. We may be required to obtain work permits, post bonds and perform remediation work for any physical disturbance to the area in order to comply with these laws. The cost of complying with permit and regulatory environment laws will be greater because the impact on the project area is greater. Permits and regulations will control all aspects of the production program if the project continues to that stage. Examples of regulatory requirements can include:

(a) Water discharge will have to meet drinking water standards;

(b) Dust generation will have to be minimal or otherwise re-mediated;

(c) Dumping of material on the surface will have to be re-contoured and re-vegetated with natural vegetation;

(d) An assessment of all material to be left on the surface will need to be environmentally benign;

(e) Ground water will have to be monitored for any potential contaminants;

(f) The socio-economic impact of the project will have to be evaluated and if deemed negative, will have to be remediated; and

There is a risk that new regulations could increase our costs of doing business and prevent us from carrying out our exploration program. We will also have to sustain the cost of reclamation and environmental remediation for all exploration work undertaken. Both reclamation and environmental remediation refer to putting disturbed ground back as close to its original state as possible. Other potential pollution or damage must be cleaned-up and renewed along standard guidelines outlined in the usual permits. Reclamation is the process of bringing the land back to its natural state after completion of exploration activities. Environmental remediation refers to the physical activity of taking steps to remediate, or remedy, any environmental damage caused. The amount of these costs is not known at this time as we do not know the extent of the exploration program that will be undertaken beyond completion of the recommended work program. If remediation costs exceed our cash reserves we may be unable to complete our exploration program and have to abandon our operations.

If access to our properties is restricted by inclement weather, we may be delayed in any future drilling efforts.

It is possible that adverse weather could cause accessibility to our properties difficult and this would delay in our timetables.

Based on consumer demand, the growth and demand for any oil or gas we may recover from our claims may be slowed, resulting in reduced revenues to the company.

Our success will be dependent on the growth of demand for petroleum products. If consumer demand slows our revenues may be significantly affected. This could limit our ability to generate revenues and our financial condition and operating results may be harmed.

Because our current officers and directors have other business interests, they may not be able or willing to devote a sufficient amount of time to our business operations, causing our business to fail.

Our current officers and directors currently devotes up to 10 hours per week providing services to the company. While they presently possesses adequate time to attend to our interest, it is possible that the demands on them from other obligations could increase, with the result that they would no longer be able to devote sufficient time to the management of our business. This could negatively impact our business development.

WE MAY BE UNABLE TO OBTAIN ADDITIONAL CAPITAL THAT WE MAY REQUIRE TO IMPLEMENT OUR BUSINESS PLAN. THIS WOULD RESTRICT OUR ABILITY TO GROW.

The proceeds from our private offerings completed in 2007 and funds borrowed since this private offering, provide us with a limited amount of working capital and is not sufficient to fund our proposed operations. We will require additional capital to continue to operate our business and our proposed operations. We may be unable to obtain additional capital as and when required.

Future acquisitions and future development, production and marketing activities, as well as our administrative requirements (such as salaries, insurance expenses and general overhead expenses, as well as legal compliance costs and accounting expenses) will require a substantial amount of additional capital and cash flow.

We may not be successful in locating suitable financing transactions in the time period required or at all, and we may not obtain the capital we require by other means. If we do not succeed in raising additional capital, the capital we have received to date may not be sufficient to fund our operations going forward without obtaining additional capital financing.

Any additional capital raised through the sale of equity may dilute your ownership percentage. This could also result in a decrease in the fair market value of our equity securities because our assets would be owned by a larger pool of outstanding equity. The terms of securities we issue in future capital transactions may be more favorable to our new investors, and may include preferences, superior voting rights and the issuance of warrants or other derivative securities, and issuances of incentive awards under equity employee incentive plans, which may have a further dilutive effect.

Our ability to obtain needed financing may be impaired by such factors as the capital markets (both generally and in the resource industry in particular), our status as a new enterprise without a demonstrated operating history, the location of our properties and the price of oil and gas on the commodities markets (which will impact the amount of asset-based financing available to us) or the retention or loss of key management. Further, if oil and gas prices on the commodities markets decrease, then our revenues will likely decrease, and such decreased revenues may increase our requirements for capital. If the amount of capital we are able to raise from financing activities is not sufficient to satisfy our capital needs, we may be required to cease our operations.

We may incur substantial costs in pursuing future capital financing, including investment banking fees, legal fees, accounting fees, securities law compliance fees, printing and distribution expenses and other costs. We may also be required to recognize non-cash expenses in connection with certain securities we may issue, such as convertible notes and warrants, which may adversely impact our financial condition.

AMENDMENTS TO CURRENT LAWS AND REGULATIONS GOVERNING OUR PROPOSED OPERATIONS COULD HAVE A MATERIAL ADVERSE IMPACT ON OUR PROPOSED BUSINESS.

Our business will be subject to substantial regulation under state and federal laws relating to the exploration for, and the development, upgrading, marketing, pricing, taxation, and transportation of oil and other matters. Amendments to current laws and regulations governing operations and activities of resource operations could have a material adverse impact on our proposed business. In addition, there can be no assurance that income tax laws, royalty regulations and government incentive programs related to the resource industry generally, will not be changed in a manner which may adversely affect us and cause delays, inability to complete or abandonment of properties.

Permits, leases, licenses, and approvals are required from a variety of regulatory authorities at various stages of mining and extraction. There can be no assurance that the various government permits, leases, licenses and approvals sought will be granted to us or, if granted, will not be cancelled or will be renewed upon expiration.

ESTIMATES OF OIL RESERVES THAT WE MAKE MAY BE INACCURATE WHICH COULD HAVE A MATERIAL ADVERSE EFFECT ON US

There are numerous uncertainties inherent in estimating quantities of oil resources, including many factors beyond our control, and no assurance can be given that expected levels of resources or recovery of oil will be realized. In general, estimates of recoverable oil resources are based upon a number of factors and assumptions made as of the date on which resource estimates are determined, such as geological and engineering estimates which have inherent uncertainties and the assumed effects of regulation by governmental agencies and estimates of future commodity prices and operating costs, all of which may vary considerably from actual results. All such estimates are, to some degree, uncertain and classifications of resources are only attempts to define the degree of uncertainty involved. For these reasons, estimates of the recoverable oil, the classification of such resources based on risk of recovery, prepared by different engineers or by the same engineers at different times, may vary substantially.

ABANDONMENT AND RECLAMATION COSTS ARE UNKNOWN AND MAY BE SUBSTANTIAL.

We will be responsible for compliance with terms and conditions of environmental and regulatory approvals and all laws and regulations regarding the abandonment of our properties and reclamation of lands at the end of their economic life, which abandonment and reclamation costs may be substantial. A breach of such legislation and/or regulations may result in the issuance of remedial orders, the suspension of approvals, or the imposition of fines and penalties, including an order for cessation of operations at the site until satisfactory remedies are made. It is not possible to estimate with certainty the abandonment and reclamation costs since they will be a function of regulatory requirements at the time.

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INCREASES IN OUR OPERATING EXPENSES WILL IMPACT OUR OPERATING RESULTS AND FINANCIAL CONDITION.

Extraction, development, production, marketing (including distribution costs) and regulatory compliance costs (including taxes) will substantially impact the net revenues we derive from oil that we produce. These costs are subject to fluctuations and variation in different locales in which we will operate, and we may not be able to predict or control these costs. If these costs exceed our expectations, this may adversely affect our results of operations. In addition, we may not be able to earn net revenue at our predicted levels, which may impact our ability to satisfy our obligations.

PENALTIES WE MAY INCUR COULD IMPAIR OUR BUSINESS.

Failure to comply with government regulations could subject us to civil and criminal penalties, could require us to forfeit property rights, and may affect the value of our assets. We may also be required to take corrective actions, such as installing additional equipment or taking other actions, each of which could require us to make substantial capital expenditures. We could also be required to indemnify our employees in connection with any expenses or liabilities that they may incur individually in connection with regulatory action against them. As a result, our future business prospects could deteriorate due to regulatory constraints, and our profitability could be impaired by our obligation to provide such indemnification to our employees.

ENVIRONMENTAL RISKS MAY ADVERSELY AFFECT OUR BUSINESS.

Oil extraction operations present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal, state, and local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with resource operations. The legislation also requires that facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner we expect may result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs.

The discharge of pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require us to incur costs to remedy such discharges. The application of environmental laws to our business may cause us to curtail our production or increase the costs of our production, development or exploration activities.

CHALLENGES TO TITLE TO OUR PROPERTIES MAY IMPACT OUR FINANCIAL CONDITION.

Title to oil interests is often not capable of conclusive determination without incurring substantial expense. While we intend to make appropriate inquiries into the title of properties and other development rights we acquire, title defects may exist. In addition, we may be unable to obtain adequate insurance for title defects, on a commercially reasonable basis or at all. If title defects do exist, it is possible that we may lose all or a portion of our right, title and interests in and to the properties to which the title defects relate.

THE LIMITED TRADING OF OUR COMMON STOCK ON THE OTC BULLETIN BOARD MAY IMPAIR YOUR ABILITY TO SELL YOUR SHARES.

There have been thin volumes of trading of our common stock. The lack of trading of our common stock and the low volume of any future trading may impair your ability to sell your shares at the time you wish to sell them or at a price that you consider reasonable. Such factors may also impair our ability to raise capital by selling shares of capital stock and may impair our ability to acquire other companies or technologies by using common stock as consideration.

THE MARKET PRICE OF OUR COMMON STOCK IS LIKELY TO BE HIGHLY VOLATILE AND SUBJECT TO WIDE FLUCTUATIONS.

Assuming we are able to establish an active trading market for our common stock, the market price of our common stock is likely to be highly volatile and could be subject to wide fluctuations in response to a number of factors that are beyond our control, including:

* dilution caused by our issuance of additional shares of common stock and other forms of equity securities, which we expect to make in connection with future capital financings to fund our operations and growth, to attract and retain valuable personnel and in connection with future strategic partnerships with other companies;
* announcements of acquisitions, reserve discoveries or other business initiatives by our competitors;
* fluctuations in revenue from our business as new reserves come to market;
* changes in the market for commodities or in the capital markets generally;
* quarterly variations in our revenues and operating expenses;
* changes in the valuation of similarly situated companies, both in our industry and in other industries;
* changes in analysts' estimates affecting us, our competitors or our industry;
* changes in the accounting methods used in or otherwise affecting our industry;
* additions and departures of key personnel;
* fluctuations in interest rates and the availability of capital in the capital markets; and

These and other factors are largely beyond our control, and the impact of these risks, singly or in the aggregate, may result in material adverse changes to the market price of our common stock and our results of operations and financial condition.

OUR OPERATING RESULTS MAY FLUCTUATE SIGNIFICANTLY, AND THESE FLUCTUATIONS MAY CAUSE OUR STOCK PRICE TO DECLINE.

Our operating results will likely vary in the future primarily as the result of fluctuations in our revenues and operating expenses, expenses that we incur, the price of oil and gas in the commodities markets and other factors. If our results of operations do not meet the expectations of current or potential investors, the price of our common stock may decline.

WE DO NOT EXPECT TO PAY DIVIDENDS IN THE FORESEEABLE FUTURE.

We do not intend to declare dividends for the foreseeable future, as we anticipate that we will reinvest any future earnings in the development and growth of our business. Therefore, investors will not receive any funds unless they sell their common stock, and stockholders may be unable to sell their shares on favorable terms or at all. Investors cannot be assured of a positive return on investment or that they will not lose the entire amount of their investment in the common stock.

APPLICABLE SEC RULES GOVERNING THE TRADING OF "PENNY STOCKS" WILL LIMIT THETRADING AND LIQUIDITY OF OUR COMMON STOCK, WHICH MAY AFFECT THE TRADING PRICE OF OUR COMMON STOCK.

Our common stock is presently considered to be a "penny stock" and is subject to SEC rules and regulations which impose limitations upon the manner in which such shares may be publicly traded and regulate broker-dealer practices in connection with transactions in "penny stocks." Penny stocks generally are equity securities with a price of less than $5.00 (other than securities registered on certain national securities exchanges or quoted on the NASDAQ system, provided that current price and volume information with respect to transactions in such securities is provided by the exchange or system). The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document that provides information about penny stocks and the risks in the penny stock market. The broker-dealer must also provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction, and monthly account statements showing the market value of each penny stock held in the customer's account. In addition, the penny stock rules generally require that prior to a transaction in a penny stock, the broker-dealer make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for a stock that becomes subject to the penny stock rules which may increase the difficulty investors may experience in attempting to liquidate such securities.

FORWARD-LOOKING STATEMENTS

This Form 10-K contains forward-looking statements that involve risks and uncertainties. We use words such as anticipate, believe, plan, expect, future, intend and similar expressions to identify such forward-looking statements. You should not place too much reliance on these forward-looking statements. Our actual results are likely to differ materially from those anticipated in these forward-looking statements for many reasons.

Item 2. Description of Property

Corporate Office

The Company's headquarters and executive offices are located at Suite 632, 22837 Pacific Coast Highway, Malibu, California, 90265. Our telephone number is 310-887-6391. Our office space is currently rented on a month to month basis.

Oil and Gas Interests

By a letter of intent dated March 26, 2008, the Company acquired a 15% working interest in the Quinlan #3 Oil and Gas lease in Pottowatomie County, Oklahoma in consideration for the payments totaling $67,500. The funding for this acquisition was derived from a private placement of 33,750 shares of our common stock.

By a turnkey agreement effectively dated March 29, 2008, the Company acquired a 60% working interest in an oil and gas leases known as the Crown Oil and Gas Lease in Pottowatomie County, Oklahoma for $250,000. The funding for this acquisition was derived from a private placement of 250,000 shares of our common stock.

Bankruptcy or similar procedure

We have not been the subject of a bankruptcy, receivership or similar proceedings.

Competition and Markets

We face competition from other oil and natural gas companies in all aspects of our business, including acquisition of producing properties and oil and natural gas leases, marketing of oil and natural gas, and obtaining goods, services and labor. Many of our competitors have substantially larger financial and other resources than we have. Factors that affect our ability to acquire producing properties include available funds, available information about prospective properties and our limited number of employees.

The availability of a ready market for and the price of any hydrocarbons produced will depend on many factors beyond our control including, but not limited to, the amount of domestic production and imports of foreign oil and liquefied natural gas, the marketing of competitive fuels, the proximity and capacity of natural gas pipelines, the availability of transportation and other market facilities, the demand for hydrocarbons, the effect of federal and state regulation of allowable rates of production, taxation, the conduct of drilling operations and federal regulation of natural gas. All of these factors, together with economic factors in the marketing arena, generally affect the supply of and/or demand for oil and natural gas and thus the prices available for sales of oil and natural gas.

Regulatory Considerations

Proposals and proceedings that might affect the oil and gas industry are periodically presented to Congress, the Federal Energy Regulatory Commission (“FERC”), the Minerals Management Service (“MMS”), state legislatures and commissions and the courts. We cannot predict when or whether any such proposals may become effective. This industry is heavily regulated. There is no assurance that the regulatory approach currently pursued by various agencies will continue indefinitely. Notwithstanding the foregoing, except for the water quality issue described below, we currently do not anticipate that compliance with existing federal, state and local laws, rules and regulations, will have a material or significantly adverse effect upon our capital expenditures, earnings or competitive position. No material portion of our business is subject to renegotiation of profits or termination of contracts or subcontracts at the election of the federal government.

Our operations are subject to various types of regulation at the federal, state and local levels. This regulation includes requiring permits for drilling wells, maintaining bonding requirements in order to drill or operate wells and regulating the location of wells, the method of drilling and casing wells, the surface use and restoration of properties upon which wells are drilled, the plugging and abandoning of wells and the disposal of fluids used or generated in connection with operations. Our operations are also subject to various conservation laws and regulations. These include the regulation of the size of drilling and spacing units or proration units and the density of wells which may be drilled and the unitization or pooling of oil and natural gas properties. In addition, state conservation laws sometimes establish maximum rates of production from oil and natural gas wells, generally prohibit the venting or flaring of natural gas and impose certain requirements regarding the ratability of production. The effect of these regulations may limit the amount of oil and natural gas we can produce from our wells in a given state and may limit the number of wells or the locations at which we can drill.

Currently, there are no federal, state or local laws that regulate the price for our sales of natural gas, natural gas liquids, crude oil or condensate. However, the rates charged and terms and conditions for the movement of gas in interstate commerce through certain intrastate pipelines and production area hubs are subject to regulation under the Natural Gas Policy Act of 1978, as amended. Pipeline and hub construction activities are, to a limited extent, also subject to regulations under the Natural Gas Act of 1938, as amended. While these controls do not apply directly to us, their effect on natural gas markets can be significant in terms of competition and cost of transportation services, which in turn can have a substantial impact on our profitability and costs of doing business. Additional proposals and proceedings that might affect the natural gas and crude oil extraction industry are considered from time to time by Congress, FERC, state regulatory bodies and the courts. We cannot predict when or if any such proposals might become effective and their effect, if any, on our operations. We do not believe that we will be affected by any action taken in any materially different respect from other crude oil and natural gas producers, gatherers and marketers with whom we compete.

State regulation of gathering facilities generally includes various safety, environmental and in some circumstances, nondiscriminatory take requirements. This regulation has not generally been applied against producers and gatherers of natural gas to the same extent as processors, although natural gas gathering may receive greater regulatory scrutiny in the future.

Various federal, state and local laws regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, directly impact oil and natural gas exploration, development and production operations, and consequently may impact our operations and costs. These regulations include, among others, (i) regulations by the Environmental Protection Agency (“EPA”), and various state agencies regarding approved methods of disposal for certain hazardous and non-hazardous wastes; (ii) the Comprehensive Environmental Response, Compensation and Liability Act, and analogous state laws, which regulate the removal or remediation of previously disposed wastes (including wastes disposed of or released by prior owners or operators), property contamination (including groundwater contamination), and remedial plugging operations to prevent future contamination; (iii) the Clean Air Act and comparable state and local requirements, which may require certain pollution controls with respect to air emissions from our operations; (iv) the Oil Pollution Act of 1990, which contains numerous requirements relating to the prevention of and response to oil spills into waters of the United States; (v) the Resource Conservation and Recovery Act, which is the principal federal statute governing the treatment, storage and disposal of hazardous wastes.

To date, compliance with environmental laws and regulations has not required the expenditure of any material amount of money. Since environmental laws and regulations are periodically amended, we are unable to predict the ultimate cost of compliance. To our knowledge, other than the potential water quality issue described above, there are currently no material adverse environmental conditions that exist on any of our properties and there are no current or threatened actions or claims by any local, state or federal agency, or by any private landowner against us pertaining to such a condition. Further, we are not aware of any currently existing condition or circumstance that may give rise to such actions or claims in the future.

Employees

The Company has no full time employees and one part time employee.

Research and Development Expenditures

We have not incurred any research or development expenditures since our incorporation.

Patents and Trademarks

We do not own, either legally or beneficially, any patents or trademarks.

Reports to Securities Holders

We provide an annual report that includes audited financial information to our shareholders. We will make our financial information equally available to any interested parties or investors through compliance with the disclosure rules of Regulation S-K for a small business issuer under the Securities Exchange Act of 1934. We are subject to disclosure filing requirements including filing Form 10K annually and Form 10Q quarterly. In addition, we will file Form 8K and other proxy and information statements from time to time as required. We do not intend to voluntarily file the above reports in the event that our obligation to file such reports is suspended under the Exchange Act. The public may read and copy any materials that we file with the Securities and Exchange Commission, (“SEC”), at the SEC’s Public Reference Room at 100 F Street NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site (http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

Item 3. Legal Proceedings

There are no existing, pending or threatened legal proceedings involving Toro Ventures Inc., or against any of our officers or directors as a result of their involvement with the Company.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders during the year ended June 30, 2009.

PART II

Item 5. Market for Common Equity, Related Stockholder Matters and Small Business Issuer Purchases of Equity Securities

Market for the Common Stock

Our common stock is traded on the OTC Bulletin Board and is quoted under the symbol "TORO.OB."

No Public Market for Common Stock

As of the date of this report we have approximately 90 shareholders of record. We have paid no cash dividends and have no outstanding options. We have no securities authorized for issuance under equity compensation plans.

The SEC has adopted rules that regulate broker-dealer practices in connection with transactions in penny stocks. Penny stocks are generally equity securities with a price of less than $5.00, other than securities registered on certain national securities exchanges or quoted on the NASDAQ system, provided that current price and volume information with respect to transactions in such securities is provided by the exchange or quotation system. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock, to deliver a standardized risk disclosure document prepared by the SEC, that: (a) contains a description of the nature and level of risk in the market for penny stocks in both public offerings and secondary trading; (b) contains a description of the broker's or dealer's duties to the customer and of the rights and remedies available to the customer with respect to a violation to such duties or other requirements of Securities' laws; (c) contains a brief, clear, narrative description of a dealer market, including bid and ask prices for penny stocks and the significance of the spread between the bid and ask price; (d) contains a toll-free telephone number for inquiries on disciplinary actions; (e) defines significant terms in the disclosure document or in the conduct of trading in penny stocks; and (f) contains such other information and is in such form, including language, type, size and format, as the SEC shall require by rule or regulation. The broker-dealer also must provide, prior to effecting any transaction in a penny stock, the customer with: (a) bid and offer quotations for the penny stock; (b) the compensation of the broker-dealer and its salesperson in the transaction; (c) the number of shares to which such bid and ask prices apply, or other comparable information relating to the depth and liquidity of the market for such stock; and (d) monthly account statements showing the market value of each penny stock held in the customer's account. In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from those rules; the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written acknowledgment of the receipt of a risk disclosure statement, a written agreement to transactions involving penny stocks, and a signed and dated copy of a suitably written statement.

These disclosure requirements may have the effect of reducing the trading activity in the secondary market for our stock if it becomes subject to these penny stock rules. Therefore, if our common stock becomes subject to the penny stock rules, stockholders may have difficulty selling those securities.

Dividends

Our dividend policy for holders of common stock is to retain earnings to support the expansion of operations through organic growth or by strategic acquisitions. We have not previously paid any cash dividends, and we do not intend to pay cash dividends in the near future. Any future cash dividends will depend on our future earnings, capital requirements, financial condition and other factors deemed relevant by the Board of Directors.

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Recent Issuances of Unregistered Securities

From February through March 2008 pursuant to a $500,000 equity private placement, the Company issued a total of 250,000 shares to a group of accredited investors of restricted Common Stock at an average value of $2.00 per share. The funds raised were used to acquire Toro's 60% interest of the Crown Oil & Gas Lease in Pottowatomie County, Oklahoma. The Company is relying on exemption from registration pursuant to Regulation S of the Securities Act of 1933. Of these shares 33,750 were cancelled and the Subscription Receivable of $50,000 was not received.

In May 2008 pursuant to a $67,500 equity private placement, the Company issued a total of 33,750 shares to a group of accredited investors of restricted Common Stock at an average value of $2.00 per share. The funds raised were used to acquire Toro's 15% interest of the Quinlan #3 Oil & Gas Lease in Pottowatomie County, Oklahoma. The Company is relying on exemption from registration pursuant to Regulation S of the Securities Act of 1933.

The common stock issued by the Company was not registered under the Securities Act of 1933, and cannot be resold or distributed absent registration unless an exemption from the registration requirement is applicable, such as Rule 144. Under Rule 144, the restricted stock may be sold in the public market if the requirements of the Rule are satisfied.

Item 6. Management's Discussion and Analysis or Plan of Operation

Forward-Looking Statements

This quarterly report contains forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. These statements relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may", "should", "expects", "plans", "anticipates", "believes", "estimates", "predicts", "potential" or "continue" or the negative of these terms or other comparable terminology. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks in the section entitled "Risk Factors", that may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Except as required by applicable law, including the securities laws of the United States, we do not intend to update any of the forward-looking statements to conform these statements to actual results.

Our unaudited financial statements prepared in accordance with United States Generally Accepted Accounting Principles. The following discussion should be read in conjunction with our financial statements and the related notes that appear elsewhere in this quarterly report. The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and elsewhere in this quarterly report, particularly in the section entitled "Risk Factors" of this quarterly report.

In this quarterly report, unless otherwise specified, all dollar amounts are expressed in United States dollars. All references to "common shares" refer to the common shares in our capital stock.

As used in this quarterly report, the terms "we", "us", "our" and "Toro" mean Toro Ventures Inc., unless otherwise indicated.

General Overview

We were incorporated pursuant to the laws of the State of Nevada on April 11, 2005 under the name Toro Ventures Inc. We were initially in the fast food services industry.

The address of our principal executive office is Suite 632, 22837 Pacific Coast Highway, Malibu, CA 90265. Our telephone number is 310-887-6391.

Our common shares became listed on the OTC Bulletin Board on July 12, 2008, under the symbol “TORO”. Prior to this date, there was no public market for our common shares.

We were not successful in implementing our business plan as fast food services business. As management of our company investigated opportunities and challenges in the business of being a fast food services company, management realized that the business did not present the best opportunity for our company to realize value for our shareholders. As a result, we investigated several other business opportunities to enhance shareholder value, and focused on the oil and gas industry.

On March 26, 2008, we acquired a 15% working interest in the Quinlan #3 Oil and Gas lease in Pottowatomie County, Oklahoma in consideration for the payments totaling $67,500.

By a turnkey agreement dated March 29, 2008, we acquired a 60% working interest in an oil and gas lease known as the Crown Oil and Gas Lease in Pottowatomie County, Oklahoma for $250,000.

We are an exploration stage oil and gas company engaged in the exploration for oil and gas in Oklahoma.

We intend to continue to acquire high quality oil and gas properties, primarily "proved producing and proved undeveloped reserves" in the United States. We see significant opportunities in acquiring properties with proven producing reserves and undeveloped acreage in fields that have a long history of production. We will also explore low-risk development drilling and work-over opportunities with experienced, strong operators. We will attempt to finance oil and gas operations through a combination of privately placed debt and/or equity. There can be no assurance that we will be successful in finding financing, or even if financing is found, that we will be successful in acquiring oil and/or gas assets that result in profitable operations.

We are continuing our efforts to identify and assess investment opportunities in oil and natural gas properties, utilizing the labor of our directors and stockholders until such time as funding is sourced from the capital markets. It is anticipated that we will require funding over the next twelve months to continue our operation. Attempts are ongoing to raise funds through private placements and said attempts will continue throughout 2009.

Our operating expenses will increase as we undertake our plan of operations. The increase will be attributable to the continuing geological exploration and acquisition programs and continued professional fees that will be incurred.

Purchase of Significant Equipment

We do not intend to purchase any significant equipment (excluding oil and gas activities) over the twelve months ending June 30, 2010.

Employees

Currently our only employees are our directors and officers. We do not expect any material changes in the number of employees over the next 12 month period. We do and will continue to outsource contract employment as needed. However, with project advancement and if we are successful in our initial and any subsequent drilling programs we may retain additional employees.

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Results of Operations

The following summary of our results of operations should be read in conjunction with our financial statements for the year ended June 30 2009, which are included herein. The financial information in the table above is derived from the annual unaudited financial statements. The following discussion should be read in conjunction with our audited financial statements and the related notes that appear elsewhere in this Annual Report on Form 10-K. The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward looking statements. Factors that could cause or contribute to such differences include, but are not limited to those discussed below and elsewhere in this Annual Report on Form 10-K. The financial statements are stated in United States Dollars and are prepared in accordance with United States Generally Accepted Accounting Principles.

Fiscal Year Ended June 30, 2009 Compared to Fiscal Year Ended June 30, 2008

For Fiscal Year Ended June 30,	2009	2008
Oil and Gas Revenue	$ -0-	$ -0-
Cost of sales	-0-	-0-
Gross Profit	-0-	-0-
Operating Expenses		
Regulatory and transfer agent fees	650	185
Management fees	19,642	19,700
Professional fees	59,542	149,931
Rent	4,446	16,899
Amortization	625	2,500
Impairment Charge	334,375	-0-
Bank Charges and Interest	45	337
Total operating expenses	419,325	189,551
Net Income (Loss)	(419,325)	(189,551)

Our net loss for fiscal year ended June 30, 2009 was ($419,325) compared to a net loss of ($189,551) for fiscal year ended December 31, 2008, an increase of $229,774. During fiscal years ended June 30, 2009 and June 30, 2008, we did not generate any revenue.

During fiscal year ended June 30, 2009, we incurred operating expenses of $419,325 compared to $189,551 incurred during fiscal year ended June 30, 2008. During fiscal year ended June 30, 2009, operating expenses consisted of: (i) regulatory and transfer agent fees of $650 (2008: $183); (ii) management fees of $19,642 (2008: $19,700); (iii) professional fees of $59,542 (2007: $149,931); (iv) rent of $4,446 (2008: $16,899); (v) amortization of $625 (2008: $625; (vi) impairment charge of $334,375 (2008: $-0-); and (vii) bank charge and interest of $45 (2008: $337). The increase in operating expenses during fiscal year ended June 30, 2009 from 2008 was primarily attributable to the recording of the impairment charge of $334,375.

Thus, our net loss and loss per share during fiscal year ended June 30, 2009 was ($419,325) or ($0.07) per share compared to a net loss and loss per share of ($189,551) or $0.00 per share during fiscal year ended June 30, 2008.

LIQUIDITY AND CAPITAL RESOURCES

Fiscal Year Ended June 30, 2009

As of June 30, 2009, our current assets were $-0- and our current liabilities were $100,787, which resulted in a working capital deficit of $100,787. As of June 30, 2009, current liabilities were comprised of: (i) $15,396 in accounts payable; and (ii) $85,391 in notes payable - related party.

As of June 30, 2009, our total assets were $-0-. The decrease in total assets during fiscal year ended June 30, 2009 from fiscal year ended June 30, 2008 was due to the decrease in currents assets of $71,809 and decrease in other assets of $406,809.

As of June 30, 2009, our total liabilities were $100,787 comprised entirely of current liabilities. The increase in liabilities during fiscal year ended June 30, 2009 from fiscal year ended June 30, 2008 was primarily due to the increase in notes payable from related party.

Stockholders' equity (deficit) increased from $356,538 for fiscal year ended June 30, 2008 to ($100,787) for fiscal year ended June 30, 2009.

Cash Flows from Operating Activities

We have not generated positive cash flows from operating activities. For fiscal year ended June 30, 2009, net cash flows used in operating activities was ($389,309) compared to ($78,251) for fiscal year ended June 30, 2008. Net cash flows used in operating activities consisted primarily of a net loss of $419,325 (2008: $189,551), which was partially adjusted by $625 (2008: $2,500) for amortization expense, $12,000 (2008: $-0-) for expense charged to contributed surplus, and $16,875 (2008: $-0-) for write-off of properties. Net cash flows used in operating activities was further changed by an increase of other $516 (2008: $2,198) for accounts payable and $-0- (2008: $50,000) for subscriptions receivable.

Cash Flows from Investing Activities

For fiscal year ended June 30, 2009, net cash flows provided by investing activities was $317,500 (2008: $317,500) relating to investment in oil and gas properties.

Cash Flows from Financing Activities

We have financed our operations primarily from debt or the issuance of equity instruments. For fiscal year ended June 30, 2009, net cash flows provided by financing activities was $50,000 relating to loan from shareholder compared to $260,000 for fiscal year ended December 31, 2008 relating to $250,000 in issuance of capital stock for cash and $10,100 in loan from shareholder.

MATERIAL COMMITMENTS

As at June 30, 2009, we were indebted to a related party for $85,391. Terms are due upon demand with no interest accruing.

Equity Compensation

We currently do not have any stock option or equity compensation plans or arrangements.

Contractual Obligations

As a “smaller reporting company”, we are not required to provide tabular disclosure obligations.

Off-Balance Sheet Arrangements

We have no significant off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to stockholders.

Going Concern

We have suffered recurring losses from operations. The continuation of our company as a going concern is dependent upon our company attaining and maintaining profitable operations and/or raising additional capital. The financial statements do not include any adjustment relating to the recovery and classification of recorded asset amounts or the amount and classification of liabilities that might be necessary should our company discontinue operations.

The continuation of our business is dependent upon us raising additional financial support and/or attaining and maintaining profitable levels of internally generated revenue. The issuance of additional equity securities by us could result in a significant dilution in the equity interests of our current stockholders. Obtaining commercial loans, assuming those loans would be available, will increase our liabilities and future cash commitments.

Item 7. Financial Statements

Our unaudited interim financial statements for the year ended April 30, 2009 form part of this annual report. They are stated in United States Dollars (US$) and are prepared in accordance with United States generally accepted accounting principles.

BAYING ECOLOGICAL HOLDING GROUP INC.
Balance Sheets

	June 30, 2009	June 30, 2008
ASSETS		
CURRENT ASSETS		
Cash	$-	$21,809
Accounts Receivable	-	-
Subscription Receivable	-	50,000
Total Current Assets	-	71,809
Other Assets		
Investment in Franchise	-	25,000
Accumulated Amortization	-	(7,500)
Net Investment in Franchise	-	17,500
Interer in Oil and Gas Properties	-	317,500
	$-	$406,809
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$15,396	$14,880
Note payable - related party	85,391	35,391
TOTAL CURRENT LIABILITIES	100,787	50,271
STOCKHOLDERS' EQUITY		
Common stock, par value $0.001,	6,095	6,129
Authorized - 75,000,000 $0.001 par value common shares		
Issued - 6,095,000 as of June 30, 2009 and 6,128,750 common shares as of June 30, 2008		
Additional paid-in capital	583,405	621,371
Retained Earnings	(690,287)	(270,962)
TOTAL STOCKHOLDERS' EQUITY	(100,787)	356,538
	$-	$406,809

See Accompanying Notes to Financial Statements

BAYING ECOLOGICAL HOLDING GROUP INC.
Statements of Operations

	Year ended June 30, 2009	Year ended June 30, 2008	Cumulative from Date of Inception on April 11, 2005 to June 30, 2009
OIL AND GAS REVENUES	$-	$-	$-
OPERATING EXPENSES			
Regulatory and transfer agent fees	650	185	2,380
Management Fees	19,642	19,700	47,843
Professional Fees	59,542	149,931	246,538
Rent	4,446	16,899	50,243
Amortization	625	2,500	8,125
Impairment Charge	334,375	-	334,375
Bank Charges and Interest	45	337	783
Total Operating Expenses	419,325	189,551	690,287
INCOME (LOSS(BEFORE INCOME TAXES	(419,325)	(189,551)	(690,287)
PROVISION FOR INCOME TAXES	-	-	-
NET INCOME (LOSS)	$(419,325)	$(189,551)	$(690,287)
NET INCOME (LOSS) PER SHARE	$(0.07)	$(0.03)	
WEIGHTED AVERAGE NUMBER OF COMMON SHARES Diluted)	6,095,000	6,128,750	

See Accompanying Notes to Financial Statements

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BAYING ECOLOGICAL HOLDING GROUP INC.
Statements of Stockholders' Equity

	# of Shares	Par Value	Contributed Surplus	Retained Earnings	Total
Balance April 11, 2005	-	-	-	-	-
Shares Issued for Cash	5,570,000	$5,570	$29,430		$35,000
Shares Issued for Franchise	275,000	275	24,725		25,000
Net Loss for period ended June 30, 2005				(9,562)	(9,562)
Balance June 30, 2005	5,845,000	5,845	54,155	(9,562)	50,438
Net Loss for year ended June 30, 2006				(48,096)	(48,096)
Balance June 30, 2006	5,845,000	5,845	54,155	(57,658)	2,342
Net Loss for year ended June 30, 2007				(23,754)	(23,754)
Balance June 30, 2007	5,845,000	5,845	54,155	(81,412)	(21,412)
Shares Issued for Cash	125,000	125	249,875		250,000
Shares Issued for Property	158,750	159	317,341		317,500
Net Loss for year ended June 30, 2008				(189,550)	(189,550)
Balance June 30, 2008	6,128,750	6,129	621,371	(270,962)	356,538
Return of Shares	(33,750)	(34)	(49,966)		(50,000)
Expenses forgiven to Contributed Surplus			12,000		12,000
Net Loss for year ended June 30, 2009				(419,325)	(419,325)
Balance June 30, 2009	6,095,000	$6,095	$583,405	$(690,287)	$(100,787)

See Accompanying Notes to Financial Statements

BAYING ECOLOGICAL HOLDING GROUP INC.
Statements of Cash Flows

	Year ended June 30, 2009	June 30, 2008	Cumulative from Date of Inception on April 11, 2005 to June 30, 2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	$(419,325)	$(189,551)	$(690,287)
Adjustments to reconcile net income (loss) to net cash used in operating activities			
Amortization Expense	625	2,500	8,125
Expense charged to Contributed Surplus	12,000	-	12,000
Write-off of Properties	16,875	-	16,875
Shares issued for Properties	-	317,500	342,500
Increase (decrease) in			
Subscriptions receivable	-	(50,000)	-
Accounts payable	516	(2,198)	15,396
Net Cash Provided (Used) by Operating Activities	(389,309)	78,251	(295,391
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment in Franchise	-	-	(25,000)
Investment in Oil and Gas Properties	317,500	(317,500)	
Net Cash Provided (Used) by Investing Activities	317,500	(317,500)	(25,000)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of Capital Stock for cash		250,000	235,000
Loan from Shareholder	50,000	10,100	85,391
Net Cash Provided (Used) by Financing Activities	50,000	260,100	320,391
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(21,809)	20,851	-
CASH AND CASH EQUIVALENTS			
Beginning	21,809	958	-
Ending	$-	$21,809	$-
Supplemental Disclosures of Cash Flow Information:			
Stock issued for properties	$-	$200,000	$342,500
Interest	$-	$-	$-
Taxes	$-	$-	$-

See Accompanying Notes toFinancial Statements

BAYING ECOLOGICAL HOLDING GROUP INC .

(An Exploration Stage Company)
Notes to Financial Statements
June 30, 2009

NOTE 1 - ORGANIZATION AND DESCRIPTION OF BUSINESS

Baying Ecological Holding Group Inc. (formerly Toro Ventures Inc. was incorporated in Nevada on April 11, 2005. The company changed its name from Toro Ventures Inc. effective February 7, 2014 .

Basis of Presentation

These financial statements are presented in United States dollars and have been prepared in accordance with United States generally accepted accounting principles.

NOTE 2 - GOING CONCERN

The Company's financial statements as of June 30, 2009 have been prepared using generally accepted accounting principles in the United States of America applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. The Company has not yet established an ongoing source of revenues sufficient to cover its operating costs and allow it to continue as a going concern. The Company has incurred a cumulative net loss from inception (April 11, 2005) through June 30, 2009 of $690,287.

In order to continue as a going concern, the Company will need, among other things, additional capital resources. Management's plan is to obtain such resources for the Company by obtaining capital from management and significant shareholders sufficient to meet its minimal operating expenses and seeking equity and/or debt financing. However management cannot provide any assurances that the Company will be successful in accomplishing any of its plans. These financial statements do not include any adjustments related to the recoverability and classification of assets or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

The Company considers highly liquid financial instruments purchased with a maturity of three months or less to be cash equivalents.

Net Loss per Share

Net loss per common share is computed by dividing net loss by the weighted average common shares outstanding during the period as defined by Financial Accounting Standards, ASC Topic 260, "Earnings per Share". Basic earnings per common share (“EPS”) calculations are determined by dividing net income by the weighted average number of shares of common stock outstanding during the year. Diluted earnings per common share calculations are determined by dividing net income by the weighted average number of common shares and dilutive common share equivalents outstanding. During periods when common stock equivalents, if any, are anti-dilutive they are not considered in the computation.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could materially differ from those estimates. Management believes that the estimates used are reasonable.

In Management's opinion all adjustments necessary for a fair statement of the results for the interim periods have been made. All adjustments are normal and recurring.

Reclassifications

Certain prior year balances have been reclassified to conform to the current year presentation.

Revenue Recognition

The Company recognizes revenue on an accrual basis. Revenue is generally realized or realizable and earned when all of the following criteria are met: 1) persuasive evidence of an arrangement exists between the Company and our customer(s); 2) services have been rendered; 3) our price to our customer is fixed or determinable; and 4) collectability is reasonably assured.

Fair value of financial instruments

The carrying value of cash equivalents and accrued expenses approximates fair value due to the short period of time to maturity.

Recently issued accounting pronouncements

In July 2013, the FASB issued Accounting Standards Update 2013-11 Income Taxes (Topic 740) Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carry-forward, a Similar Tax Loss, or a Tax Credit Carry-forward Exists. An unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carry-forward, a similar tax loss or a tax credit carry-forward, except as follows. To the extent a net operating loss carry-forward, a similar tax loss or a tax credit carry-forward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date. This Update applies to all entities that have unrecognized tax benefits when a net operating loss carry-forward, a similar tax loss, or a tax credit carry-forward exists at the reporting date. The amendments in this Update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013.

In January 2013, the FASB issued ASU No. 2013-01, Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities , which clarifies which instruments and transactions are subject to the offsetting disclosure requirements originally established by ASU 2011-11. The new ASU addresses preparer concerns that the scope of the disclosure requirements under ASU 2011-11 was overly broad and imposed unintended costs that were not commensurate with estimated benefits to financial statement users. In choosing to narrow the scope of the offsetting disclosures, the Board determined that it could make them more operable and cost effective for preparers while still giving financial statement users sufficient information to analyze the most significant presentation differences between financial statements prepared in accordance with U.S. GAAP and those prepared under IFRSs. Like ASU 2011-11, the amendments in this update will be effective for fiscal periods beginning on, or after January 1, 2013. The adoption of ASU 2013-01 is not expected to have a material impact on our financial position or results of operations.

The Company has implemented all new accounting pronouncements that are in effect. These pronouncements did not have any material impact on the financial statements unless otherwise disclosed, and the Company does not believe that there are any other new accounting pronouncements that have been issued that might have a material impact on its financial position or results of operations.

NOTE 4 - DEBT /RELATED PARTY

Loan Payable

The Company is indebted to a related party for $85,391. Terms are due upon demand without interest.

RELATED PARTY TRANSACTION

The Company has charged to expense with a corresponding credit to paid in capital cost of donated services of its officer which were $3,000 per quarter for management fees and $1,000 per quarter for rent.

NOTE 5 - STOCKHOLDERS' DEFICIT

Authorized

75,000,000 common shares with a par value of $0.001.

Shares Issued

During the period the Company cancelled 33,750 shares of stock originally for a subscription agreement resulting in an outstanding share balance of 6,095,000.

NOTE 6 - INCOME TAX

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differenamounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Net deferred tax assets consist of the following components as of June 30, 2009 and 2008:

	June 30, 2009	June 30, 2008
Deferred Tax Assets – Non-current:		
NOL Carryover	$355,913	$270,963
Payroll Accrual	-	-
Less valuation allowance	(355,913)	(270,963)
Deferred tax assets, net of valuation allowance	$-	$-

The income tax provision differs from the amount of income tax determined by applying the U.S. federal income tax rate to pretax income from continuing operations for the period ended June 30, 2009 and 2008 due to the following:

		2009	2008	
Book Income	$	(419,325)	$(189,551)	
Meals and Entertainment		-	-	
Impairment		334,375	-	
Accrued Payroll		-	-	**For:**

$5.00 or less per 100 ADSs	§ Each delivery or issuance of ADSs, including deliveries or issuances resulting from a distribution of shares or rights or other property
$5.00 or less per 100 ADSs	§ Each surrender or

	cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates
$0.02 or less per ADS	§ Any cash distribution to ADS registered holders
A fee equivalent to the fee for the execution and delivery of ADSs referred to above which would have been charged as a result of the deposit of such securities but which securities are instead distributed by the Depositary to registered ADS holders	§ Each distribution of securities, other than ordinary shares or ADSs, to holders of deposited securities which are distributed by the Depositary to ADS registered
$0.02 or less per ADS per calendar year (to the extent that the depositary has not collected a cash distribution fee of US$0.02 per ADS during that year)	§ Depositary services
Registration or transfer fees, if applicable	§ Transfer and registration of shares on the share register of our transfer agent to or from the name of the Depositary or its agent when an ADS holder deposits or withdraws

	shares
Expenses of the depositary, if applicable	§ Cable, telex and facsimile transmissions as are expressly provided in the deposit agreement § Converting foreign currency to U.S. dollars
Taxes and other governmental charges the Depositary or the Custodian have to pay on any ADS or ordinary share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes	§ As necessary
Any charges incurred by the Depositary or its agents for servicing the deposited securities	§ As necessary

Fees and payments made by the Depositary to us

The Depositary has waived certain of its standard out-of-pocket administrative, maintenance, shareholder services and secondary market support services fees and expenses for providing services to registered ADS holders and us (excluding those fees and expenses set forth in the table above). These waived fees and expenses include, without limitation, the Depositary's annual administration charges and fees, custody fees, issuance of dividend checks and replacements, if necessary, preparation and filing of U.S. tax information returns, stationery, postage, notification mailing, photocopying, facsimile and telephone calls, and certain investor relationship programs and investor relations promotional activities. We are responsible for paying for postage and envelopes for mailing annual and interim financial reports and all non-standard out-of-pocket administration and maintenance expenses of the Depositary, including any and all reasonable legal fees and disbursements.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

There are no defaults, dividend arrearages or delinquencies that are required to be disclosed.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS.

RIGHTS OF SECURITY HOLDERS

Effective March 2, 2006, upon the listing of our ordinary shares on the Stock Exchange of Hong Kong ("SEHK"), certain amendments to our Memorandum and Articles of Association became effective, as is described in the report on Form 6-K filed on March 1, 2006. A summary of material provisions of our Memorandum and Articles of Association is included in Item 10 above.

USE OF PROCEEDS

As of December 31, 2016, the net proceeds from our initial public offering in August 2000, and our public offering in November 2001, were primarily used for general working capital and investment in interest income producing financial instruments. None of the net proceeds from our initial public offering were paid, directly or indirectly, to any of our directors, officers or general partners or any of their associates, or to any person owning ten percent or more of any class of our equity securities, or any of our affiliates.

ITEM 15. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed pursuant to the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives.

As of December 31, 2016, we carried out an evaluation, under the supervision and with the participation of the management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective.

Management’s Annual Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the company. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Our company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of our company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of our company are being made only in accordance with authorizations of management and directors of our company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our company's assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Management conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in Internal Control—Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, management concluded that our company's internal control over financial reporting was effective as of December 31, 2016. This Annual Report includes an attestation report of our independent registered public accounting firm regarding internal control over financial reporting.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting that occurred during our fiscal year 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Attestation Report of The Independent Registered Public Accounting Firm

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and the Shareholders of O_2Micro International Limited:

We have audited the internal control over financial reporting of O_2Micro International Limited and subsidiaries (the “Company”) as of December 31, 2016, based on criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management’s Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2016, of the Company and our report dated March 31, 2017 expressed an unqualified opinion on those financial statements.

/s/ Deloitte & Touche

Taipei, Taiwan

Republic of China

March 31, 2017

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

We have at least one audit committee financial expert serving on the audit committee. The Board of Directors has determined that Mr. Lawrence Lin is the “audit committee financial expert” as defined in Item 16A of Form 20-F. We believe Mr. Lin is “independent” as defined in Rule 4200(a)(15) of the Marketplace Rules of the NASDAQ Stock Market.

ITEM 16B. CODE OF ETHICS

We have adopted the O_2Micro International Limited Code of Business Conduct and Ethics (“Code of Conduct”), a code of business conduct and ethics that applies to our employees, officers and non-employee directors (including our principal executive officer, principal financial officer, principal accounting officer or controller), and persons performing similar functions. It is publicly available on our website at www.o2micro.com. If we make any substantive amendments or grant any waiver from a provision of the Code of Conduct to our directors or executive officers, we will disclose the nature of such amendment or waiver on that website or in a report on Form 6-K or in the next Annual Report on Form 20-F.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Deloitte & Touche has served as the Company's independent registered public accounting firm for each of the fiscal years in the two-year period ended December 31, 2016. The appointment of the independent registered public accounting firm is subject to approval and ratification by the Company's shareholders at the annual general meeting of shareholders. The following table presents the aggregate fees for professional services and other services rendered by Deloitte & Touche in each of the years ended December 31, 2016 and 2015.

	Year Ended December 31, 2016	Year Ended December 31, 2015
	(*in thousands)*	
Audit Fees	$383	$ 403
Audit-related Fees	10	10
Tax Fees	44	25
All other fees	-	30
Total	$437	$ 468

Audit Fees. This category includes the audit of our annual financial statements, review of quarterly financial statements, audit of our internal control over financial reporting and services that are normally provided by Deloitte & Touche in connection with statutory and regulatory filings or engagements for those fiscal years.

Audit-related Fees. This category consists of assurance and related services by Deloitte & Touche that are related to the performance of audit or review of our financial statements and are reported above under “Audit Fees.”

Tax Fees. This category consists of professional services rendered by Deloitte & Touche for tax compliance and tax consultation. The services for fees disclosed under this category include tax return preparation advice and technical tax consultation.

All Other Fees. This category consists of professional services rendered by Deloitte & Touche for fees in connection with COSO 2013 Integrated Framework preparation.

The audit committee pre-approves all audit and permissible non-audit services provided by the independent registered public accounting firm. These services may include audit services, audit-related services, tax services and other services. During the year ended December 31, 2016, the audit committee pre-approved all audit and non-audit-fees of Deloitte & Touche.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEE

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PERSONS

Period	**Total Number of Shares Purchased (2)**	**Average Price Paid per Share (2)**	**Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1) (2) (3)**	**Maximum Number of Shares or Dollar of Value that May Yet Be Purchased Under the Plans or Programs (1) (2) (3)**
January 1, 2016 to January 31, 2016	5,780,800	$0.0291	5,780,800	$9,881,703
February 1, 2016 to February 28, 2016	2,152,650	$0.0283	2,152,650	$9,820,778
March 1, 2016 to March 31, 2016	3,628,300	$0.0299	3,628,300	$9,712,237
April 1, 2016 to April 30, 2016	1,400,000	$0.0296	1,400,000	$9,670,792
May 1, 2016 to May 31, 2016	1,361,100	$0.0294	1,361,100	$9,630,816
June 1, 2016 to June 30, 2016	2,467,900	$0.0304	2,467,900	$9,555,694
July 1, 2016 to July 31, 2016	1,465,000	$0.0310	1,465,000	$9,510,290
August 1, 2016 to August 31, 2016	-	$ -	-	$9,510,290
September 1, 2016 to September 30, 2016	1,195,000	$0.0322	1,195,000	$9,471,824
October 1, 2016 to October 31, 2016	-	$ -	-	$9,471,824
November 1, 2016 to November 30, 2016	790,000	$0.0371	790,000	$9,442,515
December 1, 2016 to December 31, 2016	318,000	$0.0382	318,000	$9,430,370

(1) In May 2002, we announced a share repurchase program to repurchase up to 3,000,000 shares of our ADSs or 150,000,000 in ordinary shares after taking into account the 50-to-1 stock split on November 25, 2005. There is no expiration date for the share repurchase program.

(2) All share and price per share numbers reflect the 50-for-1 stock split which occurred on November 25, 2005.

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(3) On November 14, 2005, our shareholders adopted a general mandate (the “Repurchase Mandate”) to exercise all the powers of our company to repurchase such number of ordinary shares not exceeding 10% of the total nominal amount of the share capital of our company in issue and to be issued. The Repurchase Mandate was to only become effective if and when our ordinary shares were listed for trading on the SEHK, which occurred on March 2, 2006.

(4) On June 30, 2010, our shareholders passed a resolution authorizing the purchase by the Company, in accordance with the provision of the Companies Law (2010 Revision) of the Cayman Islands of such of its own shares. No further Shareholder approval will be required in the future for the Company to repurchase its ordinary shares and the Board will have the authority to fix the number of share to be repurchased, as well as the price and other terms of any repurchase, as determined by the Board in its discretion from time to time. In July 2010, the Board approved that the Company adopt a plan to repurchase up to an aggregate of $20.0 million of value of the Company’s issued and outstanding ordinary shares.

(5) In December 2011, our Board approved an additional $30 million under our current program to repurchase the Company's ordinary shares. No date was established for the completion of the share repurchase program.

ITEM 16F. CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT

Not applicable.

ITEM 16G. CORPORATE GOVERNANCE

We are a foreign private issuer whose ADSs are listed on the NASDAQ Global Market. As such, we are required to comply with U.S. federal securities laws, including the Sarbanes-Oxley Act, and the NASDAQ rules, including the NASDAQ corporate governance requirements. While we are generally in compliance with all of the NASDAQ corporate governance requirements, NASDAQ rules provide that foreign private issuers may follow home country practice in lieu of certain qualitative listing requirements subject to certain exceptions and except to the extent that such exemptions would be contrary to U.S. federal securities laws, so long as the foreign issuer discloses that it does not follow such listing requirement and describes the home country practice followed in its reports filed with the SEC. Below is a concise summary of the significant ways in which our corporate governance practices differ from the corporate governance requirements of NASDAQ applicable to domestic U.S. listed companies:

· We are not required under Cayman Islands law to, and do not, distribute interim reports directly to shareholders.

In addition, please also see Item 6 “Directors, Senior Management and Employees” and Item 10 “Additional Information” for further discussion on our corporate governance practices.

PART III

ITEM 17. FINANCIAL STATEMENTS

The Company's Consolidated Financial Statements have been prepared in accordance with Item 18 hereof.

ITEM 18. FINANCIAL STATEMENTS

The Company's financial statements set forth in the accompanying Index to Consolidated Financial Statements included in this Annual Report on Form 20-F following Part IV beginning on page F-1 are hereby incorporated herein by this reference. Such consolidated financial statements are filed as part of this Annual Report on Form 20-F.

ITEM 19. EXHIBITS

1. Amended and Restated Memorandum and Articles of Association of the registrant adopted pursuant to a special resolution passed on May 29, 2009, which took effect upon the withdrawal of the listing of the ordinary shares of the registrant on the Main Board of The Stock Exchange of Hong Kong Limited on September 9, 2009.

8.1 List of registrant's subsidiaries

12.1 Certification of Chief Executive Officer of the Company, pursuant to Section 302 of the Sarbanes-Oxley Act

12.2 Certification of Chief Financial Officer of the Company, pursuant to Section 302 of the Sarbanes-Oxley Act

13. Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act

15.1 Consent of Deloitte & Touche, independent registered public accounting firm

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

	O_2MICRO INTERNATIONAL LIMITED	
Date: March 31, 2017	By:	/s/ sterling du
	Name:	Sterling Du
	Title:	Chief Executive Officer

O_2MICRO INTERNATIONAL LIMITED

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

O_2Micro International Limited and Subsidiaries

Consolidated Financial Statements as of

December 31, 2016 and 2015 and for the Three Years Ended December 31, 2016, 2015 and 2014, and

Report of Independent Registered Public

Accounting Firm

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and the Shareholders of O_2Micro International Limited:

We have audited the accompanying consolidated balance sheets of O_2Micro International Limited and subsidiaries (the “Company”) as of December 31, 2016 and 2015, and the related consolidated statements of operations and comprehensive income, shareholders’ equity, and cash flows for each of the three years in the period ended December 31, 2016 (expressed in United States dollars). These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those 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, such consolidated financial statements present fairly, in all material respects, the financial position of O_2Micro International Limited and subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2016, based on the criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 31, 2017 expressed an unqualified opinion on the Company’s internal control over financial reporting.

/s/ Deloitte & Touche

Taipei, Taiwan

Republic of China

March 31, 2017

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O_2MICRO INTERNATIONAL LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In Thousand US Dollars, Except Per Share Amounts and Share Data)

	December 31	
ASSETS	**2016**	2015 As Adjusted (note 2)
CURRENT ASSETS		
Cash and cash equivalents (notes 4 and 5)	$31,332	$ 41,199
Restricted cash	32	31
Short-term investments (notes 4 and 6)	21,532	11,233
Accounts receivable, net	7,205	5,197
Inventories (note 7)	9,275	9,662
Prepaid expenses and other current assets (note 8)	1,106	1,100
Asset held for sale (note 10)	-	1,956
Total current assets	70,482	70,378
LONG-TERM INVESTMENTS (notes 4 and 9)	4,253	9,304
PROPERTY AND EQUIPMENT, NET (note 10)	13,736	14,011
OTHER ASSETS (note 11)	2,218	2,515
TOTAL ASSETS	$90,689	$ 96,208
LIABILITIES AND SHAREHOLDERS’ EQUITY		
CURRENT LIABILITIES		
Notes and accounts payable	$4,329	$ 3,333
Income tax payable	180	2,245
Accrued expenses and other current liabilities (note 12)	4,102	4,896
Total current liabilities	8,611	10,474
OTHER LONG-TERM LIABILITIES		
Accrued pension liabilities (note 14)	281	272
Deferred income tax liabilities (notes 12 and 13)	930	2,206
Other liabilities (note 10)	83	139
Total long-term liabilities	1,294	2,617
Total liabilities	9,905	13,091
COMMITMENTS AND CONTINGENCIES (notes 17 and 18)		

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 – 1,669,036,600 and 1,660,786,600 shares as of December 31, 2016 and 2015, respectively Outstanding – 1,279,124,900 and 1,278,661,400 shares as of December 31, 2016 and 2015, respectively	33	33
Additional paid-in capital	142,738	141,886
Accumulated deficits	(41,372)	(38,386)
Accumulated other comprehensive income	4,415	4,824
Treasury stock – 389,911,700 and 382,125,200 shares as of December 31, 2016 and 2015, respectively	(25,030)	(25,240)
Total shareholders' equity	80,784	83,117
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 90,689	$ 96,208

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

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O$_2$MICRO INTERNATIONAL LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(In Thousand US Dollars, Except Per Share Amounts and Share Data)

	Years Ended December 31		
	2016	2015	2014
NET SALES	$56,561	$54,841	$63,591
COST OF SALES	27,317	27,145	30,856
GROSS PROFIT	29,244	27,696	32,735
OPERATING EXPENSES			
Research and development (a)	15,645	18,493	21,885
Selling, general and administrative (a)	19,481	23,632	24,721
Costs associated with exit activities (note 3)	-	-	3,027
Litigation income (note 18)	(23)	-	(75)
Total operating expenses	35,103	42,125	49,558
LOSS FROM OPERATIONS	(5,859)	(14,429)	(16,823)
NON-OPERATING INCOME			
Interest income	301	681	1,035
Foreign exchange gain, net	63	730	589
Impairment loss on long-term investments (note 9)	-	(4,953)	(83)
Gain on sale of long-term investments (note 9)	948	8	436
Gain on sale of real estate (note 10)	1,725	767	458
Other, net	894	741	515
Total non-operating income (loss)	3,931	(2,026)	2,950
LOSS BEFORE INCOME TAX	(1,928)	(16,455)	(13,873)
INCOME TAX EXPENSE (note 13)	1,058	4,640	1,184
NET LOSS	(2,986)	(21,095)	(15,057)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX EFFECT OF NIL			
Foreign currency translation adjustments	(397)	(1,945)	(1,416)
Unrealized gain (loss) on available-for-sale investments (note 9)	1	-	(398)
Unrealized pension (loss) gain	(13)	1	70

Total other comprehensive loss	(409)	(1,944)	(1,744)
COMPREHENSIVE LOSS	$(3,395)	$(23,039)	$(16,801)

(Continued)

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O_2MICRO INTERNATIONAL LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(In Thousand US Dollars, Except Per Share Amounts and Share Data)

	Years Ended December 31		
	2016	2015	2014
LOSS PER SHARE (note 16)			
Basic and diluted	$-	$(0.02)	$(0.01)
NUMBER OF SHARES USED IN LOSS PER SHARE CALCULATION:			
Basic and Diluted (in thousands)	1,282,141	1,301,465	1,362,465
(a) INCLUDES STOCK-BASED COMPENSATION CHARGE AS FOLLOWS:			
Research and development	$231	$322	$489
Selling, general and administrative	$1,375	$1,590	$1,631

The accompanying notes are an integral part of the consolidated financial statements. (Concluded)

O_2MICRO INTERNATIONAL LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In Thousand US Dollars, Except Share Data)

	Ordinary Shares		Additional Paid – in	Retained Earnings (Accumulated	Accumulated Other Comprehensive Income Unrealized Investment	Cumulative Translation	Unrealized Pension		Treasu
	Shares	Amount	Capital	Deficits)	Gain (Loss)	Adjustment	Gain (Loss)	Total	Stock
BALANCE, DECEMBER 31, 2013	1,660,786,600	$33	$140,198	$(2,234)	$398	$8,302	$(188)	$8,512	$(19,8
Issuance of:									
Shares for exercise of stock options	796,900	-	44	-	-	-	-	-	-
Shares for Employee Stock Purchase Plan	5,284,800	-	258	-	-	-	-	-	-
Shares vested under restricted share units	12,903,400	-	-	-	-	-	-	-	-
Acquisition of treasury stock – 83,468,900 shares	-	-	-	-	-	-	-	-	(4,96
Treasury stock reissued for :									
Exercise of stock options	(796,900)	-	(59)	-	-	-	-	-	59
Employee Stock Purchase Plan	(5,284,800)	-	(383)	-	-	-	-	-	383
Restricted share units	(12,903,400)	-	(949)	-	-	-	-	-	949
Stock-based compensation	-	-	2,120	-	-	-	-	-	-
Net loss for 2014	-	-	-	(15,057)	-	-	-	-	-
Pension gain	-	-	-	-	-	-	70	70	-
Foreign currency translation adjustments	-	-	-	-	-	(1,416)	-	(1,416)	-
Unrealized gain on available-for-sale investments	-	-	-	-	74	-	-	74	-
Reclassification adjustments for gain on available-for-sale securities included in net loss	-	-	-	-	(472)	-	-	(472)	-
BALANCE, DECEMBER 31, 2014	1,660,786,600	33	141,229	(17,291)	-	6,886	(118)	6,768	(23,4
Issuance of:									
Shares for exercise of stock options	677,100	-	31	-	-	-	-	-	-
Shares for Employee Stock Purchase Plan	4,833,300	-	180	-	-	-	-	-	-
Shares vested under restricted share units	15,728,550	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	(3,23

Acquisition of treasury stock – 69,838,000 shares									
Treasury stock reissued for :									
Exercise of stock options	(677,100)	-	(47)	-	-	-	-	-	47
Employee Stock Purchase Plan	(4,833,300)	-	(328)	-	-	-	-	-	328
Restricted share units	(15,728,550)	-	(1,091)	-	-	-	-	-	1,09
Stock-based compensation	-	-	1,912	-	-	-	-	-	-
Net loss for 2015	-	-	-	(21,095)	-	-	-	-	-
Pension gain	-	-	-	-	-	-	1	1	-
Foreign currency translation adjustments	-	-	-	-	-	(1,945)	-	(1,945)	-
BALANCE, DECEMBER 31, 2015	1,660,786,600	33	141,886	(38,386)	-	4,941	(117)	4,824	(25,2
Issuance of:									
Shares for exercise of stock options	84,750	-	2	-	-	-	-	-	-
Shares for Employee Stock Purchase Plan	2,881,350	-	73	-	-	-	-	-	-
Shares vested under restricted share units	18,056,150	-	-	-	-	-	-	-	-
Acquisition of treasury stock – 20,558,750 shares	-	-	-	-	-	-	-	-	(619
Treasury stock reissued for :									
Exercise of stock options	(84,750)	-	(5)	-	-	-	-	-	5
Employee Stock Purchase Plan	(2,881,350)	-	(187)	-	-	-	-	-	187
Restricted share units	(9,806,150)	-	(637)	-	-	-	-	-	637
Stock-based compensation	-	-	1,606	-	-	-	-	-	-
Net loss for 2016	-	-	-	(2,986)	-	-	-	-	-
Pension loss	-	-	-	-	-	-	(13)	(13)	-
Foreign currency translation adjustments	-	-	-	-	-	(397)	-	(397)	-
Unrealized gain on available-for-sale investments	-	-	-	-	524	-	-	524	-
Reclassification adjustments for gain on available-for-sale securities included in net loss	-	-	-	-	(523)	-	-	(523)	-
BALANCE, DECEMBER 31, 2016	1,669,036,600	$33	$142,738	$(41,372)	$1	$4,544	$(130)	$4,415	$(25,0

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

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O_2MICRO INTERNATIONAL LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousand US Dollars)

	Years Ended December 31		
	2016	2015	2014
OPERATING ACTIVITIES			
Net loss	$(2,986)	$(21,095)	$(15,057)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	1,682	2,446	3,718
Stock-based compensation	1,606	1,912	2,120
Loss on asset write-off	-	-	82
Inventory write-downs	1,527	913	1,538
Gain on sale of long-term investments	(948)	(8)	(436)
Impairment loss on long-term investments	-	4,953	83
Gain on disposal of property and equipment, net	(1,726)	(738)	(428)
Deferred income taxes	(1,231)	1,989	78
Other, net	-	-	(36)
Changes in operating assets and liabilities:			
Accounts receivable, net	(2,008)	1,592	3,235
Inventories	(1,140)	(1,933)	(2,963)
Prepaid expenses and other current assets	(6)	191	130
Deferred charges	(375)	(416)	(985)
Notes and accounts payable	996	1,202	(2,038)
Income tax payable	(2,065)	1,595	412
Accrued expenses and other current liabilities	(1,064)	(1,039)	577
Accrued pension liabilities	(4)	(11)	(12)
Other liabilities	(56)	(168)	(346)
Net cash used in operating activities	(7,798)	(8,615)	(10,328)
INVESTING ACTIVITIES			
Acquisition of:			
Short-term investments	(28,797)	(7,128)	(22,346)
Property and equipment	(673)	(724)	(1,004)
Decrease (increase) in:			
Restricted cash	-	132	(1)
Other assets	40	82	116
Proceeds from:			
Sale of short-term investments	18,331	16,755	34,333
Sale of long-term investments	5,999	537	1,304
Disposal of property and equipment	3,837	3,205	1,982

Net cash (used in) provided by investing activities	(1,263)	12,859	14,384
FINANCING ACTIVITIES			
Acquisition of treasury stock	(619)	(3,233)	(4,965)
Proceeds from:			
Exercise of stock options	2	31	44
Issuance of ordinary shares under the Employee Stock Purchase Plan	73	180	258
Net cash used in financing activities	(544)	(3,022)	(4,663)

(Continued)

O_2MICRO INTERNATIONAL LIMITED AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousand US Dollars)

	Years Ended December 31		
	2016	2015	2014
EFFECTS OF CHANGES IN FOREIGN EXCHANGE RATE	$(262)	$(1,092)	$(617)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(9,867)	130	(1,224)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	41,199	41,069	42,293
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	$31,332	$41,199	$41,069
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS			
Cash paid for interest	$-	$-	$-
Cash paid for tax	$4,349	$1,068	$697

The accompanying notes are an integral part of the consolidated financial statements. (Concluded)

O_2MICRO INTERNATIONAL LIMITED AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in United States Dollars Unless Otherwise Noted)

1. GENERAL

Business

O_2Micro, Inc. was incorporated in the state of California in the United States of America on March 29, 1995. In March 1997, O_2Micro International Limited (the “Company”) was formed in the Cayman Islands and all authorized and outstanding common stock, preferred stock, and stock options of O_2Micro, Inc. were exchanged for the Company’s ordinary shares, preference shares, and stock options with identical rights and preferences. O_2Micro, Inc. became the Company’s subsidiary after the share exchange. The Company designs, develops and markets innovative power management components for the Computer, Consumer, Industrial, Automotive and Communications markets.

The Company’s ordinary shares (“Shares”) were initially listed on The NASDAQ National Market (“NASDAQ”) on August 23, 2000, and on the Cayman Islands Stock Exchange on February 1, 2001. At the Extraordinary General Meeting of Shareholders (“EGM”) held on November 14, 2005, the shareholders approved a public global offering of the Company’s Shares and the proposed listing of the Company's Shares on the Main Board of The Stock Exchange of Hong Kong Limited (“SEHK”) and various matters related to the proposed listing and offering. Following the approval of these matters, the Company ceased trading its Shares on the NASDAQ, effected a 50-for-1 share split of Shares, created an American depositary share (“ADS”) program for the ADSs to be quoted on the NASDAQ, and delisted the Shares from the NASDAQ on November 25, 2005. The Company commenced trading of ADSs on the NASDAQ on November 28, 2005, and subsequently listed the Shares on the SEHK on March 2, 2006, by way of introduction. On February 27, 2009, the Company submitted an application for the voluntary withdrawal of the listing of Shares on the Main Board of SEHK (collectively referred to as “Proposed Withdrawal”) for reasons of cost and utility. The Company retained its existing primary listing of ADSs on the NASDAQ following the Proposed Withdrawal and for the foreseeable future. The Proposed Withdrawal was approved at the EGM held on May 30, 2009, and the listing of the Shares on SEHK was withdrawn on September 9, 2009.

The Company has incorporated various wholly-owned subsidiaries in the past, including, among others, O_2Micro Electronics, Inc. (“O_2Micro-Taiwan”), O_2Micro International Japan Ltd. (“O_2Micro-Japan”), and O_2Micro (China) Co., Ltd. (“O_2Micro-China”). O_2Micro-Taiwan is engaged in operations and sales support services. O_2Micro-Japan is engaged in sales support services. O_2Micro-China and other subsidiaries are mostly engaged in research and development services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated on consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Significant accounting estimates reflected in the Company’s consolidated financial statements include valuation allowance for deferred income tax assets, allowance for doubtful accounts, other-than-temporary impairment of securities, inventory valuation, useful lives for property and equipment, impairment of long-lived assets and identified intangible assets, allowances for sales returns, pension and uncertain tax liabilities, contingencies and stock-based compensation.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist of cash, cash equivalents, short-term investments and accounts receivable. Cash is deposited with high credit quality financial institutions. For cash equivalents and short-term investments, the Company invests primarily in time deposits at the banks with good credit rating. For accounts receivable, the Company performs ongoing credit evaluations of its customers’ financial condition and the Company maintains an allowance for doubtful accounts based upon a review of the expected collectability of individual accounts.

Fair Value of Financial Instruments

The Company’s financial instruments include cash and cash equivalents, restricted cash, accounts receivable, and notes and accounts payable. The carrying amounts approximate the fair value due to the short-term maturity of those instruments. Fair value of available-for-sale investments including short-term investments and long-term investments is based on quoted market prices. Long-term investments in private company equity securities are accounted for under the cost method because the Company does not exercise significant influence over the entities. The Company evaluates related information including operating performance, subsequent rounds of financing, advanced product development and related business plan in determining the fair value of these investments and whether an other-than-temporary decline in value exists.

Cash and Cash Equivalents

The Company considers all highly liquid investments with maturities of not more than three months when purchased to be cash equivalents. Investments with maturities of more than three months are classified as short-term investments.

Restricted Cash

The Company classifies deposits made for customs and cash pledged to a bank for the issuance of letters of credit as restricted cash. The deposits are classified as current assets if refundable within a twelve-month period from the balance sheet date.

Short-term Investments

The Company maintains its excess cash in time deposits, government, corporate, or other agency bonds issued with high credit ratings. The specific identification method is used to determine the cost of securities sold, with realized gains and losses reflected in non-operating income and expenses. All the above-mentioned investments except for time deposits were classified as available-for-sale securities and were recorded at fair value. Unrealized gains and losses on these investments are included in accumulated other comprehensive income and loss as a separate component of shareholders' equity, net of any related tax effect, unless unrealized losses are deemed other-than-temporary. Unrealized losses are recorded as a charge to income when deemed other-than-temporary. There were no available-for-sale securities as of December 31, 2016 and 2015.

Investment transactions are recorded on the trade date.

Inventories

Inventories are stated at the lower of standard cost or market value. The cost of inventories comprises cost of purchasing raw materials and where applicable, those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is determined on a currently adjusted standard basis, which approximates actual cost on a first-in, first-out basis. The Company assesses its inventory for estimated obsolescence or unmarketable inventory based upon management's assumptions about future demand and market conditions and writes down inventory as needed.

Long-term Investments

Long-term investments in private companies over which the Company does not exercise significant influence are accounted for under the cost method. Management evaluates related information in determining whether an other-than-temporary decline in value exists. Factors indicative of an other-than-temporary decline include recurring operating losses, credit defaults and subsequent rounds of financing at an amount below the cost basis of the investment. The list is not all-inclusive and management periodically weighs all quantitative and qualitative factors in determining if any impairment loss exists.

Long-term investments in listed companies are classified as available-for-sale securities and are recorded at fair value. Unrealized gains and losses on these investments are included in accumulated other comprehensive income and loss as a separate component of shareholders' equity, net of any related tax effect, unless unrealized losses are deemed other-than-temporary. Unrealized losses are recorded as a charge to income when deemed other-than-temporary.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Major additions and betterments are capitalized, while maintenance and repairs are expensed as incurred.

Depreciation is computed on a straight-line basis over estimated service lives that range as follows: buildings - 35 to 50 years, equipment - 3 to 7 years, furniture and fixtures - 3 to 7 years, leasehold improvements - the shorter of the estimated useful life or the lease term, which is 2 to 5 years, and transportation equipment - 5 years.

Assets held for sale

The Company considers assets to be held for sale (a) when management or others having the authority to do so approve a plan to sell the assets, (b) the assets are available for immediate sale in their present condition, (c) the Company has initiated an active program to locate a buyer and other actions required to complete the plan to sell the assets, (d) consummation of the transactions is probable and is expected to qualify for recognition as a completed sale, within one year, (e) the assets are being actively marketed for sale at a price that is reasonable in relation to their current fair value, and (f) the significant changes to the plan to sell the assets are not expected to be made or the plan is not expected to be withdrawn. When property and equipment are classified as held for sale, the Company discontinues depreciating the assets and measures the assets at lower of their carrying amount and fair value less costs to sell.

Long-lived Asset Impairment

The Company evaluates the recoverability of long-lived assets whenever events or changes in circumstances indicate the carrying value may not be recoverable. The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flows from the asset is separately identifiable and is less than the carrying value. If impairment occurs, a loss based on the excess of the carrying value over the fair value of the long-lived asset is recognized. Fair value is determined by reference to quoted market prices, if available, or discounted cash flows, as appropriate.

Treasury Stock

The Company may retire ordinary shares repurchased under a share repurchase plan. Accordingly, upon retirement the excess of the purchase price over par value is allocated between additional paid-in capital and retained earnings based on the average issuance price of the shares repurchased. The Company may also determine not to retire ordinary shares repurchased for the purpose of reissuing them upon exercise of stock option, Employee Stock Purchase Plan, and release of restricted stock units (“RSUs”). The reissue cost of shares repurchased is determined by the moving average method. A repurchase of ADS is recorded as treasury stock until the Company completes the withdrawal of the underlying ordinary shares from the ADS program.

Revenue Recognition

Revenue from product sales to customers, other than distributors, is recognized at the time of shipment and when title and right of ownership transfers to customers. The four criteria for revenue being realized and earned are the existence of evidence of sale, actual shipment, fixed or determinable selling price, and reasonable assurance of collectability.

Allowances for sales returns and discounts are provided at the time of the recognition of the related revenues on the basis of experience and these provisions are deducted from sales.

In certain limited instances, the Company sells its products through distributors. Since the title and risk have not been transferred upon shipment to distributors, the Company recognizes revenue on these sales only when these distributors sell the Company’s products to third parties. Thus, products held by these distributors are included in the Company’s inventory balance.

Freight Costs

Costs of shipping and handling for delivery of the Company’s products that are reimbursed by customers are recorded as revenue in the consolidated statements of operations and comprehensive income. Shipping and handling costs are charged to cost of sales as incurred.

Research and Development

Research and development costs consist of expenditures incurred during the course of planned research and investigation aimed at the discovery of new knowledge and intellectual property that will be useful in developing new products or processes, or at significantly enhancing existing products or production processes as well as expenditures incurred for the design and testing of product alternatives or construction of prototypes. All expenditures related to research and development activities of the Company are charged to operating expenses when incurred.

Advertising Expenses

The Company expenses all advertising and promotional costs as incurred. These costs were approximately $734,000, $782,000, and $948,000 in 2016, 2015, and 2014, respectively. A portion of these costs was for advertising, which approximately amounted to $236,000, $236,000, and $205,000 in 2016, 2015, and 2014, respectively.

Pension Costs

For employees under defined contribution pension plans, pension costs are recorded based on the actual contributions made to employees' pension accounts. For employees under defined benefit pension plans, pension costs are recorded based on the actuarial calculation.

Government Grants

Government grants received by the Company to assist with specific research and development activities are recognized as non-operating income. If the Company has an obligation to repay any of the funds provided by government grants regardless of the outcome of the research and development, the Company will estimate that obligation and recognize the amount as a liability.

Income Tax

The provision for income tax represents income tax paid and payable for the current year plus the changes in the deferred income tax assets and liabilities during the relevant years. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases, and operating loss and tax credit carryforwards. The Company believes that uncertainty exists regarding the realizability of certain deferred income tax assets and, accordingly, has established a valuation allowance for those deferred income tax assets to the extent the realizability is not deemed to be more likely than not. Deferred income tax assets and liabilities are measured using enacted tax rates. The Company has classified deferred tax assets and liabilities as noncurrent on the consolidated balance sheets as of December 31, 2016 and 2015 as the Company has early adopted Accounting Standards Update ("ASU") 2015-17, Balance Sheet Classification of Deferred Taxes, on a retrospective basis.

The Company utilizes a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained in a dispute with taxing authorities, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement.

Stock-based Compensation

The Company grants stock options to its employees and certain non-employees and estimates the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense ratably over the requisite service periods. The Company has elected to use the Black-Scholes option pricing model to determine the fair value of stock options on the date of grant. The Company also grants RSUs to its employees and the RSUs are measured based on the fair market value of the underlying stock on the date of grant.

Foreign Currency Transactions

The functional currency is the local currency of the respective entities. Foreign currency transactions are recorded at the rate of exchange in effect when the transaction occurs. Gains or losses, resulting from the application of different foreign exchange rates when cash in foreign currency is converted into the entities' functional currency, or when foreign currency receivable and payable are settled, are credited or charged to income in the period of conversion or settlement. At year-end, the balances of foreign currency monetary assets and liabilities are recorded based on prevailing exchange rates and any resulting gains or losses are credited or charged to income.

Translation of Foreign Currency Financial Statements

The reporting currency of the Company is the US dollar. Accordingly, the financial statements of the foreign subsidiaries are translated into US dollars at the following exchange rates: assets and liabilities - current rate on balance sheet date; shareholders' equity - historical rate; income and expenses - weighted average rate during the year. The resulting translation adjustment is recorded as a separate component of shareholders' equity.

Comprehensive Income (Loss)

Comprehensive income (loss) represents net income (loss) plus the results of certain changes in shareholders' equity during a period from non-owner sources**.**

Legal Contingencies

The Company is currently involved in various claims and legal proceedings. Periodically, the Company reviews the status of each significant matter and assesses the potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount can be estimated, the Company accrues a liability for the estimated loss. In view of uncertainties related to these matters, accruals are based only on the best information available at the time. As additional information becomes available, the Company reassesses the potential liability related to the pending claims and litigation and revises these estimates as appropriate. Such revisions in the estimates of the potential liabilities could have a material impact on the results of operations and financial position.

As part of its standard terms and conditions, the Company offers limited indemnification to third parties with whom it enters into contractual relationships, including customers; however, it is not possible to determine the range of the amount of potential liability under these indemnification obligations due to the lack of prior indemnification claims. These indemnifications typically hold third parties harmless against specified losses, such as those arising from a breach of representation or covenant, or other third party claims that the Company's products, when used for their intended purposes, infringe the intellectual property rights of such other third parties. These indemnifications are triggered by any claim of infringement of intellectual property rights brought by a third party with respect to the Company's products. The terms of these indemnifications may not be waived or amended except by written notice signed by both parties, and may only be terminated with respect to the Company's products.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standard Board ("FASB") issued a new standard related to revenue recognition. Under the new standard, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the new standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In August 2015, the FASB issued an amendment to defer the effective date. The new standard is effective for fiscal years beginning after December 15, 2017 and early adoption is permitted for annual reporting periods beginning after December 15, 2016. In March and April 2016, the FASB issued two accounting updates to clarify the implementation guidance on principal versus agent considerations, performance obligations and the licensing. In addition, the FASB issued another accounting update in May 2016 to address narrow-scope improvements to the guidance on collectability, noncash consideration, and completed contracts at transition and provides a practical expedient for contract modifications at transition. The new guidance is required to be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying it recognized at the date of initial application. The Company is currently evaluating this guidance, but does not expect the adoption to have a material effect on the Company's consolidated financial statements.

In June 2014, the FASB issued an accounting update, which clarifies the accounting for share-based payments. The guidance requires that a performance target that affects vesting and that could be achieved after the requisite service period is treated as a performance condition. The guidance is effective for fiscal years beginning after December 15, 2015 and early adoption is permitted. The adoption of this guidance did not have a material impact on the Company's results of operations, financial position or cash flow.

In August 2014, the FASB issued new standard related to the presentation of financial statements when there may be conditions or events that raise substantial doubt about the entity's ability to continue as a going concern. This standard sets forth management's responsibility to evaluate, each reporting period, whether there is substantial doubt about our ability to continue as a going concern, and if so, to provide related footnote disclosures. The standard is effective for fiscal years beginning after December 15, 2016 and early adoption is permitted. The adoption of this guidance is not expected to have a material impact on the Company's results of operations, financial position or cash flow.

In February 2015, the FASB issued an accounting update to amend the consolidation analysis. All legal entities are subject to reevaluation under the revised consolidation model. The amendment is effective for fiscal years beginning after December 15, 2015 and early adoption is permitted. The adoption of this amendment did not have a material impact on the Company's results of operations, financial position or cash flow.

In July 2015, the FASB issued an accounting update to simplify the measurement of inventory. The amendment requires the measurement of inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The amendment applies to inventories for which cost is determined by methods other than the last-in first-out and the retail inventory methods. This amendment is effective prospectively for annual periods beginning after December 15, 2016 and early application is permitted. The adoption of this amendment is not expected to have a material impact on the Company’s results of operations, financial position or cash flow.

In November 2015, the FASB issued an accounting update to simplify the presentation of deferred income taxes. The amendment requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The current requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount is not affected by the amendments in this guidance. This amendment is effective prospectively or retrospectively for annual periods beginning after December 15, 2016 and early application is permitted. The Company has elected to adopt the amendment as of December 31, 2016, and the retrospective adoption is applied to prior reporting period presented. The adoption of this amendment did not have a material impact on the Company’s financial position. Prior to the adoption, current deferred income tax assets, noncurrent deferred income tax assets, and current deferred income tax liabilities for the year ended December 31, 2015 were $26,000, $203,000, and $2,206,000, respectively. To early adopt ASU 2015-17, the Company has reclassified current deferred income tax asset of $26,000 and current deferred income tax liabilities of $2,206,000 to noncurrent deferred tax assets and noncurrent income tax liabilities, respectively. After the reclassification, the noncurrent deferred income tax assets and noncurrent income tax liabilities for the year ended December 31, 2015 were $229,000 and $2,206,000, respectively.

In January 2016, the FASB issued an accounting update regarding the subsequent measurement of equity investment. The amendment requires all equity investment to be measured at fair value with changes in the fair value recognized through net income other than those accounted for under equity method of accounting or those that result in consolidation of the investee. The amendment also simplifies the impairment assessment of equity investments without readily determinable fair value by requiring assessment for impairment qualitatively and eliminating the complexity of the other-than-temporary impairment guidance. For financial reporting, the amendment requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. In addition, for public company: the amendment eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; for nonpublic company: the amendment eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost. This amendment is effective for fiscal years beginning after December 15, 2017 and early application is prohibited. The adoption of this amendment is not expected to have a material impact on the Company's financial position, results of operations, cash flow and financial statement disclosures.

In February 2016, the FASB issued a new standard regarding leases. The new standard requires an entity to recognize assets and liabilities arising from a lease for both financing and operating leases other than that the entity elects the short-term lease recognition and measurement exemption. Qualitative and quantitative disclosures will be enhanced to better understand the amount, timing and uncertainty of cash flows arising from leases. This standard is effective for fiscal years beginning after December 15, 2018, and early adoption is permitted. The Company is currently evaluating the effect this standard will have on its financial position, results of operations, cash flow and financial statement disclosures.

In March 2016, the FASB issued an accounting update to simplify several aspects of the accounting for share-based payment award transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The amendment is effective for fiscal years beginning after December 15, 2016, and earlier adoption is permitted. The adoption of this amendment is not expected to have a material impact on the Company's financial position, results of operations, cash flow and financial statement disclosures.

In June 2016, the FASB issued an accounting update to amend the guidance on the impairment of financial instruments that are not measured at fair value through profit and loss. The amendment introduces a current expected credit loss (CECL) model based on expected losses rather than incurred losses to estimate credit losses on financial instruments measured at amortized cost and requires a broader range of reasonable and supportable information to estimate expected credit loss. In addition, under the amendment, an entity recognizes an allowance for expected credit losses on financial instruments measured at amortized cost and available-for-sale debt securities rather than the current methodology of delaying recognition of credit losses until it is probable a loss has been incurred. The amendment is effective for fiscal years beginning after December 15, 2019, and earlier adoption is permitted as of the fiscal years beginning after December 15, 2018. The adoption of the amendments is not expected to have a material impact on the Company's financial position, results of operations, cash flow and financial statement disclosures. .

In August 2016, the FASB issued an accounting update to clarify the following eight cash flow classification issues: (1) debt prepayment or debt extinguishment costs, (2) settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, (3) contingent consideration payments made after the acquisition date of a business combination, (4) proceeds received from the settlement of insurance claims, (5) proceeds received from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies, (6) distributions received from equity method investees, (7) beneficial interests in securitization transactions, and (8) separately identifiable cash flows and application of the predominance principle. The amendment is an improvement to reduce the current and potential future diversity in practice. The amendment is effective for fiscal years beginning after December 15, 2017, and earlier adoption is permitted. In addition, the amendment should be applied using a retrospective transition method to each period presented. The adoption of the amendments is not expected to have a material impact on the Company's statement of cash flows.

In November 2016, the FASB issued an accounting update related to the classification and presentation of changes in restricted cash on the statement of cash flows. The amendment requires restricted cash or restricted cash equivalents should be included with cash and cash equivalent when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendment is effective for fiscal years beginning after December 15, 2017, and early adoption is permitted. The Company is currently evaluating the impact that the adoption will have on its statement of cash flows.

3. EXIT ACTIVITIES

In December 2014, the Company determined to dissolve the Intelligent Power Group, one of the product lines of the Company's Integrated Circuit Group, which comprised of the IC products such as DC/DC controller ICs, battery charger controllers ICs, charger ICs, and LDO Regulator ICs. The actions taken to dissolve the Intelligent Power Group resulted in significantly reducing the developing activities of the Intelligent Power products, and terminating the related workforce.

For the year ended December 31, 2014, the Company recorded costs associated with exit activities of $3,027,000, of which $82,000 and $2,945,000 were related to a loss on asset write-off and one-time employee termination benefits, respectively. The Company determined that those assets directly held/carried by the Intelligent Power Group provided no future benefit and recognized a loss on asset write-off, including property and equipment of $24,000, and deferred charges of $58,000. As of December 31, 2014, one-time employee termination benefits of $2,945,000 were accrued and recorded as accrued expenses and other current liabilities on the balance sheet, which had been settled in 2015. No further transactions were occurred for the year ended December 31, 2016.

4. FAIR VALUE MEASUREMENTS

The Company measures its cash equivalents and marketable securities at fair value. Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. The Company measures its cash equivalents and marketable securities at fair value. The Company also determines the fair value of long-term investments and long-lived assets whenever events or changes in circumstances indicate the carrying value may not be recoverable. A three-tier fair value hierarchy is established as a basis for considering such assumptions and for inputs used in the valuation methodologies in measuring fair value:

Level 1 – Observable inputs such as quoted prices for identical instruments in active markets;

Level 2 – Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly;

Level 3 – Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Assets and liabilities measured at fair value on recurring and nonrecurring bases were as follows:

(In Thousands)

	Fair Value Measurements at the End of the Reporting Period			
	Level 1	Level 2	Level 3	Total
Items measured at fair value on a recurring basis at December 31, 2016				
Cash and cash equivalents				
Money market mutual funds	$ -	$ 162	$ -	$162
Items measured at fair value on a recurring basis at December 31, 2015				
Cash and cash equivalents				
Money market mutual funds	$ -	$ 161	$ -	$161

Items measured at fair value on a nonrecurring basis at December 31, 2015 (nil at December 31, 2016)	Level 1	Level 2	Level 3	Total	Total Losses
Long-term investments					
Cost method securities (note 9)	$ -	$ -	$2,414	$2,414	$(4,953)

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The Company utilized a pricing service to estimate fair value measurements for the money market mutual funds. The pricing service utilized market quotations for fixed maturity securities that had quoted prices in active markets. Fixed maturity securities generally traded daily on dealer bids rather than bids recorded on exchanges. The pricing service prepared estimates of fair value measurements for these securities using its proprietary pricing applications which included available relevant market information, benchmark curves, benchmarking of like securities, sector groupings and matrix pricing. Since most of the fixed maturity securities had maturities of one year or less, the Company believed that the fair value would not be materially different from the original purchased cost. The Company's fair value processes included controls that were designed to ensure appropriate fair values were recorded. Such controls, which may be performed quarterly or when certain assets need to be measured at fair value on a non-recurring basis, include a detailed review of methodologies and assumptions and a management review of valuation.

The fair value estimates provided by the pricing service for the Company's investments were based on observable market information rather than market quotes. Accordingly, the estimates of fair value for short-term investments were determined based on Level 2 inputs at December 31, 2016 and 2015, respectively.

The fair value measurement in cost method securities was determined based on certain evidential financial information. Please also see discussions in note 9.

5. CASH AND CASH EQUIVALENTS

(In Thousands)

	December 31	
	2016	2015
Time deposits	$2,289	$8,616
Savings and checking accounts	28,873	32,414
Money market mutual funds	162	161
Petty cash	8	8
	$31,332	$41,199

6. SHORT-TERM INVESTMENTS

(In Thousands)

December 31, 2016

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Time deposits	$21,532	$ -	$ -	$21,532

	December 31, 2015			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Time deposits	$11,233	$ -	$ -	$11,233

Short-term investments by contractual maturity were as follows:

(In Thousands)

	December 31, 2016	
	Cost	Fair Value
Time deposits		
Due within one year	$21,504	$21,504
Due after one year through two years	28	28
	$21,532	$21,532

(In Thousands)

	December 31, 2015	
	Cost	Fair Value
Time deposits		
Due within one year	$11,205	$11,205
Due after one year through two years	28	28
	$11,233	$11,233

The Company's gross realized gains and losses on the sale of investments for the years ended December 31, 2016 and 2015 were both $0. The Company's gross realized gains and losses on the sale of investments for the year ended December 31, 2014 were $38,000 and $2,000, respectively.

7. INVENTORIES

(In Thousands)

	December 31	
	2016	2015

Finished goods	$2,586	$3,080
Work-in-process	3,341	1,847
Raw materials	3,348	4,735
	$9,275	$9,662

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8. PREPAID EXPENSES AND OTHER CURRENT ASSETS

(In Thousands)

	December 31	
	2016	2015 As Adjusted (note 2)
Prepaid expenses	$420	$ 545
Other receivable	368	158
Payment in advance	202	230
Interest receivable	48	94
Other	68	73
	$1,106	$ 1,100

9. LONG-TERM INVESTMENTS

(In Thousands)

	December 31	
	2016	2015
Cost method		
Sigurd Microelectronics (Cayman) Co., Ltd. (“Sigurd Cayman”)	$2,365	$2,365
X-FAB Silicon Foundries SE (“X-FAB”)	-	4,968
Philip Ventures Enterprise Fund (“PVEF”)	44	49
GEM Services, Inc. (“GEM”)	-	78
Excelliance MOS Co., Ltd (“EMC”)	1,844	1,844
Verticil Electronics Corp. (“Verticil”)	-	-
Asia Sinomos Semiconductor Inc. (“Sinomos”)	-	-
Silicon Genesis Corporation (“SiGen”)	-	-
	4,253	9,304
Available-for-sale securities – noncurrent		
Etrend Hightech Corp. (“Etrend”)	-	-
	$4,253	$9,304

The following table shows the movement of gross unrealized gains and losses of the Company’s available-for-sale securities.

(In Thousands)

	Years Ended December 31		
	2016	2015	2014
Balance at beginning of period	$ -	$ -	$ 398
Other comprehensive income before reclassification adjustment	523	-	74
Reclassification adjustment	(523)	-	(472)
Balance at end of period	$ -	$ -	$ -

In July 2008, the Company invested in preferred shares of Sigurd Cayman for $5,700,000 to become a strategic partner of Sigurd Microelectronics Corporation (“Sigurd”). Upon completion of the transaction, the Company obtained a 19.54% ownership of Sigurd Cayman. The Company accounts for the investment under the cost method as the Company does not exercise significant influence over operating and financial policies of Sigurd Cayman and management of Sigurd holds the controlling interests. In April 2010, the Company participated in another round of preferred shares issued by Sigurd Cayman amounting to $1,500,000. In September 2015, Sigurd Cayman announced the liquidation of its wholly owned subsidiary, Sigurd Microelectronics (Wuxi) Co., Ltd. (“Sigurd Wuxi”), whose sales and operations account for the majority business of Sigurd Cayman. In view of Sigurd Cayman’s recurring financial losses and its decision to cease operations of Sigurd Wuxi, the Company determined that the decline in fair value of the investment in Sigurd Cayman was other-than-temporary and recognized an impairment charge of $4,835,000 in 2015. The resulting investment which was classified as Level 3 in the fair value hierarchy was valued using a discounted cash flow model considering the latest available financial information which primarily consists of cash and time deposits. The valuation inputs primarily included an estimate of future cash flows, expectations about possible variations in the amount and timing of cash flows. The significant unobservable input is assumed no future revenue and cost associated with production activities. As of December 31, 2016, the Company held 9,690,445 shares, which represented an 18.88% ownership of Sigurd Cayman.

The Company invested in X-FAB's ordinary shares in July 2002. X-FAB (formerly known as X-FAB Semiconductor Foundries AG) is a European-American foundry group that specializes in analog/mixed-signal application. As of December 31, 2015, the Company held 530,000 shares at the cost of $4,968,000 (4,982,000 EURO), which represented a 1.60% ownership of X-FAB. In April 2016, the Company sold the entire X-FAB's ordinary shares to a third party company and a gain of $413,000 was recorded for the year ended December 31, 2016.

In November 2005, the Company invested in PVEF, a fund management company in Singapore, with an investment amount of $585,000 (SG$1,000,000) for 20 units in the placement at SG$50,000 per unit. The Company further invested $357,000 (SG$500,000) in June 2010 to obtain 30 units. A portion of the shares were redeemed by PVEF in November 2012 and May 2015 at a cost of $445,000 and $330,000, respectively, and the carrying cost of the Company is reduced to $167,000 accordingly. In December 2015, in view of the fund's liquidation and continuous lower net asset value than the cost, the Company determined that the decline in fair value of the investment in PVEF was other-than- temporary and recognized an impairment charge of $118,000. The fair value for the fund was estimated based on the net asset value of the Company's ownership interest in the fund due to the fact that distributions from fund will be received through the liquidation of the underlying assets of the fund or the redemption of shares initiated by the fund and there were no unfunded commitments as of December 31, 2015. The investment was classified as Level 3 in the fair value hierarchy as the fund was redeemable at December 31, 2015. The Company held a 5% interest in the fund as of December 31, 2016.

The Company invested in GEM's preference shares in August 2002. GEM is a multinational semiconductor assembly and test company. On April 16, 2012, GEM signed a share purchase agreement with a listed company in Taiwan which will purchase GEM's preference share at a price of $0.235 per share to obtain approximately 58.4% ownership of GEM. In respect to this subsequent event, the Company considered this a Type I subsequent event and the investment to be other-than-temporarily impaired. Therefore, the Company recognized an impairment loss of $422,000 as of December 31, 2011. As of December 31, 2015, the Company held 333,334 shares at the cost of $78,000, which represented a 0.35% ownership of GEM. In April 2016, GEM was successfully listed on the Taiwan Stock Exchange and as such investment was classified as available-for-sale. In the third quarter of 2016, the Company sold the entire GEM's shares in the stock exchange market and a gain of $523,000 was recorded for the year ended December 31, 2016.

The Company invested $1,960,000 (NT$62,900,000) in EMC's 3,468,000 ordinary shares in June 2010. EMC is a fabless power device design company in Taiwan, specialized in power semiconductor process development, and the design of high efficiency power device and system. In December 2012, the Company sold 200,000 shares in the amount of $138,000 in the process of EMC's getting listed on the Emerging Stock GreTai Security Market of Taiwan. As of December 31, 2016, the Company held 3,474,854 shares at the cost of $1,844,000, which represented an 11.15% ownership of EMC.

In July 2013, the Company invested $250,000 (NT$7,500,000) in Verticil, a privately-owned manufacturer of LED power modules and integrated lighting solutions provider in Taiwan. Based on the recent operating status and a round of financing of Verticil in August 2014, the Company considered the investment to be other-than-temporarily impaired. Therefore, the Company recognized an impairment loss of $83,000 (NT$2,500,000) in the third quarter of

2014. The Company sold the entire Verticile shares during the second half of 2015 and a gain of $8,000 was recorded for the year ended December 31, 2015.

The Company invested in Etrend's ordinary shares in December 2002, July 2003, and March 2004, respectively. Etrend is a wafer probing, packing and testing company. In August 2007, Etrend's shares were listed on the Emerging Stock GreTai Security Market of Taiwan and the Company reclassified the investment in Etrend to available-for-sale securities. Etrend was successfully listed on the GreTai Securities Market of Taiwan in November 2010. The Company sold the entire Etrend shares in the stock exchange market during the second half of 2014 and a gain of $436,000 was recorded for the year ended December 31, 2014.

In January 2005, the Company invested in ordinary shares of Sinomos, a privately owned foundry company, at a total amount of $5,000,000. In May and December 2006, the Company further invested in preferred shares of $3,288,000 and $4,785,000, respectively. In September 2008, in view of Sinomos' operating status and recurring financial losses, the Company determined that the decline in fair value of the investment in Sinomos was other-than-temporary and recognized an impairment charge of $13,073,000. Along with the recognition of impairment charge, the Company also wrote-off the outstanding prepayments in relation to Sinomos' foundry service of $2,942,000. As of December 31, 2016, the Company held 30,101,353 of ordinary and preference shares, representing an 18.41% ownership of Sinomos.

The Company invested in SiGen preferred shares in December 2000. SiGen is an advanced nanotechnology company that develops Silicon-on-insulator, stained-silicon products and other engineered multi-layer structures to microelectronics and photonic for advanced electronic and opto-electronic device applications. In 2002 and 2003, the Company reviewed qualitative factors related to the investment, determined that the decline in value was other-than-temporary and the carrying value was decreased to zero. The Company held 23,946 shares of SiGen as of December 31, 2016, representing a 0.06% ownership of SiGen.

10. PROPERTY AND EQUIPMENT, NET

(In Thousands)

	December 31	
	2016	2015
Cost		
Land	$2,510	$2,510
Buildings	6,066	6,066
Equipment	21,284	21,819
Furniture and fixtures	779	826
Leasehold improvements	2,135	1,785
Transportation equipment	657	698
Property leased to others	3,944	3,875
Prepayment for property and equipment	1,629	1,863
	39,004	39,442
Accumulated depreciation		
Buildings	1,667	1,526
Equipment	20,521	20,965
Furniture and fixtures	733	744
Leasehold improvements	1,536	1,474
Transportation equipment	610	619
Property leased to others	201	103
	25,268	25,431

	$13,736	$14,011

Depreciation expense recognized during the years ended December 31, 2016, 2015, and 2014, was approximately $1,103,000, $1,730,000, and $2,548,000, respectively.

As a result of dissolution activities of the Intelligent Power Group, a loss on asset write-off of $24,000 on property and equipment was incurred for the year ended December 31, 2014. Please see discussions in note 3.

In August 2009, the Company sold its land, located in Hsinchu, Taiwan, to a real estate developer in exchange for a portion of the real estate after it is developed, which includes a portion of an office building and a portion of a parking lot, with a carrying value of approximately $8,918,000. The Company consummated this transaction to acquire office building space and parking lot space for the purpose of future operations and business growth. The Company deferred the transaction gain of $129,000 during the construction period. Since the fourth quarter of 2014, the title of some units of the buildings were completed and sold to the third party and the Company has realized the deferred gain of $106,000 accordingly. Considering the Company’s current operating scale and capital requirements, the Company leased out three units to a third party in December 2014. The Company has also sold 5 building units to third parties since the fourth quarter of 2014. As a result of the sale of building units, net gains of $767,000 and $458,000 were recorded for the years ended December 31, 2015 and 2014, respectively. No building unit transactions were occurred for the year ended December 31, 2016.

Beginning in November 2015, the Company has negotiated with a third party company to dispose one of the three units of the Company's office building located in China. A letter of intent has also been signed by both parties in January 2016. The Company determined that this transaction met the criteria of asset held for sale and such reclassification was made as of December 31, 2015. The transaction was subsequently completed in the third quarter of 2016 and a net gain of $1,725,000 was recorded for the year ended December 31, 2016.

11. OTHER ASSETS

(In Thousands)

	December 31	
	2016	**2015 As Adjusted** (note 2)
Deferred charges	$867	$ 1,060
Land use rights	724	743
Refundable deposits	443	483
Deferred income tax assets – noncurrent	184	229
	$2,218	$ 2,515

Deferred charges are advanced payments for consulting, maintenance, and engineering license contracts and are amortized over the terms of the contracts from 2 to 5 years. Amortization expense of the deferred charges for the years ended December 31, 2016, 2015, and 2014, was approximately $560,000, $688,000, and $1,142,000, respectively.

As a result of dissolution activities of the Intelligent Power Group, loss on asset write-off of $58,000 on deferred charges was incurred for the year ended December 31, 2014. Please see discussions in note 3.

All land within municipal zones in China is owned by the government. Limited liability companies, joint stock companies, foreign-invested enterprises, privately held companies and individual natural persons must pay fees for granting of rights to use land within municipal zones. Legal use of land is evidenced and sanctioned by land use certificates issued by the local municipal administration of land resources. Land use rights granted for industrial purposes are limited to a term of no more than 50 years.

Land use rights are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis over the term of the land use rights agreement which is 49.7 years. Amortization expense of the land use rights for the years ended December 31, 2016, 2015, and 2014, was approximately $19,000, $28,000, and $28,000, respectively.

12. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

(In Thousands)

	December 31	
	2016	**2015 As Adjusted** (note 2)
Salaries, bonus and benefits	$2,235	$ 2,305
Engineering related expenses	641	630
Payable for acquisition of equipment	277	32
Legal and audit fees	251	361
Withholding tax payable	86	100
Shipping expenses	74	146
Promotional expenses	66	35
Value-added tax payable	36	27
Consulting fees	5	366
Other accrued expenses	431	894
	$4,102	$ 4,896

13. INCOME TAX

The Company is not subject to income or other taxes in the Cayman Islands. However, subsidiaries are subject to taxes of the jurisdiction where they are located.

Loss before income taxes consisted of:

(In Thousands)

	Years Ended December 31		
	2016	2015	2014
Cayman Islands	$(4,156)	$(19,183)	$(18,943)
Foreign	2,228	2,728	5,070
	$(1,928)	$(16,455)	$(13,873)

Income tax expense consisted of:

(In Thousands)

	Years Ended December 31		
	2016	2015	2014
Current	$2,289	$2,651	$1,106
Deferred	(1,231)	1,989	78
Income tax expense	$1,058	$4,640	$1,184

The Company and its subsidiaries file separate income tax returns. The applicable statutory income tax rate in the Cayman Islands was zero for the Company for the years being reported. The reconciliation between the provision for income taxes at the statutory rate and the provision for income taxes at the effective tax rate is as follows:

(In Thousands)

	Years Ended December 31		
	2016	2015	2014
Tax expense at statutory rate	$-	$-	$-
Increase (decrease) in tax resulting from:			
Differences between Cayman and foreign tax rates	449	675	989
Changes in deferred income tax assets and liabilities	(1,249)	1,976	(72)
Adjustments to prior years' taxes	33	20	23
Changes in valuation allowances for deferred income tax assets	18	13	150
Withholding taxes on repatriation of subsidiary profits	1,669	1,757	-
Other	138	199	94
	$1,058	$4,640	$1,184

The deferred income tax assets and liabilities as of December 31, 2016 and 2015 consisted of the following:

(In Thousands)

	December 31	
	2016	2015
Deferred income tax assets		
Research and development credits	$5,979	$5,933
Net operating loss carryforwards	161	195
Depreciation and amortization	269	277
Accrued vacation and other expenses	25	56
	6,434	6,461
Valuation allowance	(6,250)	(6,232)
Total net deferred income tax assets	$184	$229
Deferred income tax liabilities		
Withholding taxes on repatriation of subsidiary profits	$920	$2,188
Unrealized foreign exchanges	10	18
	$930	$2,206

The valuation allowance shown in the table above relates to net operating losses, credit carryforwards and temporary differences for which the Company believes that realization is not more than likely. The valuation allowance increased by $18,000, $13,000, and $150,000 for the years ended December 31, 2016, 2015, and 2014, respectively. The changes in the valuation allowance in 2016, 2015, and 2014, were primary due to the fluctuations in R&D credits from O_2Micro Inc. that could not be utilized.

As of December 31, 2016, O_2Micro, Inc. had U.S. federal and state research and development credit carryforwards of approximately $5,284,000 and $6,840,000, respectively. The US federal research and development credit will expire from 2022 through 2036 if not utilized, while the state research and development credit will never expire. Utilization of the research and development credits may be subject to significant annual limitation due to the ownership change limitations provided by the U.S. Internal Revenue Code of 1986 and similar provisions in the State of California's tax regulations. The annual limitation may result in the expiration of federal research and development credits before utilization.

As of December 31, 2016, the Company's subsidiary had U.S. net operating loss carryforwards for federal and state tax purpose of $383,000 and $526,000, respectively, which will expire, if not utilized beginning in 2033 and 2028.

To better position itself for the future growth phase, the Company considered the repatriation of the earnings from subsidiaries in Taiwan and China beginning in the second quarter of 2015. As a result, deferred tax liabilities from withholding tax for the unremitted earnings in Taiwanese and Chinese subsidiaries have been recorded for $920,000 and $2,188,000 as of December 31, 2016 and 2015, respectively.

The Company files income tax returns in various foreign jurisdictions. The Company is generally no longer subject to income tax examinations by tax authorities for years prior to 2011 because of the statute of limitations.

14. RETIREMENT AND PENSION PLANS

The Company has a savings plan that qualifies under Section 401(k) of the US Internal Revenue Code. Participating employees may defer up to the US Internal Revenue Service statutory limit amounts of pretax salary. The Company may make voluntary contributions to the savings plan but has made no contributions since the inception of the savings plan in 1997.

The Company also participates in mandatory pension funds and social insurance schemes, if applicable, for employees in jurisdictions in which other subsidiaries or offices are located to comply with local statutes and practices. For the years ended December 31, 2016, 2015, and 2014, pension costs charged to income in relation to the contributions to these schemes were $984,000 $1,152,000, and $1,328,000, respectively. The Company adopted a defined benefit pension plan and established an employee pension fund committee for certain employees of O_2Micro-Taiwan who are subject to the Taiwan Labor Standards Law (“Labor Law”) to comply with local requirements. This benefit pension plan provides benefits based on years of service and average salary computed based on the final six months of employment. The Labor Law requires the Company to contribute between 2% to 15% of employee salaries to a government specified plan, which the Company currently makes monthly contributions equal to 2% of employee salaries. Contributions are required to be deposited in the name of the employee pension fund committee with the Bank of Taiwan.

The government is responsible for the administration of all the defined benefit plans for the companies in Taiwan under the Labor Standards Law. The government also sets investment policies and strategies, determines investment allocation and selects investment managers. As of December 31, 2016 and 2015, the asset allocation was primarily in cash, equity securities and debt securities. Furthermore, under the Labor Standards Law, the rate of return on assets shall not be less than the average interest rate on a two-year time deposit published by the local banks and the government is responsible for any shortfall in the event that the rate of return is less than the required rate of return. However, information on how investment allocation decisions are made, inputs and valuation techniques used to measure the fair value of plan assets, the effect of fair value measurements using significant unobservable inputs on changes in plan assets for the period and significant concentrations of risk within plan assets is not fully made available to the companies by the government. Therefore, the Company is unable to provide the required fair value disclosures related to pension plan assets.

The percentage of major category of plan assets as of December 2016 and 2015 were as follows:

	December 31	
	2016	2015
Cash	18 %	17 %
Debt securities	30 %	30 %
Equity securities	45 %	50 %

Changes in projected benefit obligation and plan assets for the years ended December 31, 2016 and 2015 were as follows:

(In Thousands)

	Years Ended December 31		
	2016	2015	2014
Projected benefit obligation, beginning of the year	$ 838	$ 838	$ 933
Service cost	3	3	3
Interest cost	13	16	17
Benefits paid	-	-	-
Actuarial (gain) loss	8	11	(61)
Effect of changes in foreign exchange rate	15	(30)	(54)
Projected benefit obligation, end of the year	$ 877	$ 838	$ 838
Fair value of plan assets, beginning of the year	$ 566	$ 545	$ 542
Employer contributions	16	27	24
Actual return on plan assets	4	14	12
Effect of changes in foreign exchange rate	10	(20)	(33)
Fair value of plan assets, end of the year	$ 596	$ 566	$ 545

The component of net periodic benefit cost was as follows:

(In Thousands)

	Years Ended December 31		
	2016	2015	2014
Service cost	$ 3	$ 3	$ 3
Interest cost	13	16	17
Expected return on plan assets	(10)	(9)	(9)
Amortization of net pension loss	1	6	6
Net periodic benefit cost	$ 7	$ 16	$ 17

The funded status of the plan was as follows:

(In Thousands)

	December 31	
	2016	2015
Accumulated benefit obligation	$(714)	$(672)
Project benefit obligation	(877)	(838)
Plan assets at fair value	596	566
Funded status of the plan	$(281)	$(272)

The actuarial assumptions to determine the benefit obligations were as follows:

	December 31	
	2016	2015
Discount rate	1.5%	1.5%
Rate of compensation increases	2.0%	2.0%

The actuarial assumptions to determine the net periodic benefit cost were as follows:

	Years Ended December 31		
	2016	2015	2014
Discount rate	1.5 %	2.0 %	2.0 %
Rate of compensation increases	2.0 %	2.0 %	2.0 %
Expected long-term rate of return on plan assets	1.8 %	1.8 %	1.8 %

The expected long-term rate of return shown for the plan assets was weighted to reflect a two-year deposit interest rate of local banking institutions.

Estimated future benefit payments are as follows:

(In Thousands)

Year	
2017	$13
2018	20
2019	15
2020	37
2021 and thereafter	389

15. STOCK-BASED COMPENSATION

Employee Stock Purchase Plan

In October 1999, the Board adopted the 1999 Employee Stock Purchase Plan (“1999 Purchase Plan”), which was approved by the shareholders prior to the consummation of its initial public offering in August 2000. A total of 50,000,000 ordinary shares were reserved for issuance under the 1999 Purchase Plan, plus annual increases on January 1 of each year, commencing in 2001, up to 40,000,000 shares as approved by the Board. In June 2008, an additional 20,000,000 shares were reserved for issuance as also approved by the Board. The 1999 Purchase Plan was subject to adjustment in the event of a stock split, stock dividend or other similar changes in ordinary shares or capital structure.

The 1999 Purchase Plan permitted eligible employees to purchase ordinary shares through payroll deductions, which may range from 1% to 10% of an employee’s regular base pay. Beginning November 1, 2005, the 1999 Purchase Plan was implemented through consecutive offer periods of 3 months’ duration commencing on the first day of February, May, August and November. Under the 1999 Purchase Plan, ordinary shares may be purchased at a price equal to the lesser of 90% of the fair market value of the Company’s ordinary shares on the date of grant of the option to purchase (which is the first day of the offer period) or 90% of the fair market value of the Company’s ordinary shares on the applicable exercise date (which is the last day of the offer period). Employees may have elected to discontinue their participation in the purchase plan at any time; however, all of the employee’s payroll deductions previously credited to the employee’s account will be applied to the exercise of the employee’s option on the next exercise date. Participation ends automatically on termination of employment with the Company. If not terminated earlier, the 1999 Purchase Plan had a term of 10 years. By 2009, 10,685,400 ordinary shares had been purchased under the 1999 Purchase Plan.

As approved by the EGM held on May 30, 2009, the Company adopted the 2009 Employee Stock Purchase Plan (“2009 Purchase Plan”) along with the Company delisting from SEHK in September 2009. The 2009 Purchase Plan succeeded the 1999 Purchas Plan, and the terms and provisions of 2009 Purchase Plan are generally the same as the 1999 Purchase Plan. The 2009 Purchase Plan has a term of 10 years, if not terminated earlier. A total of 25,000,000 ordinary shares were reserved for issuance under the 2009 Purchase Plan starting November 2009. As approved by the Annual General Meeting of Shareholders (“AGM”) held on June 22, 2012, additional 15,000,000 ordinary shares were reserved for issuance under the 2009 Purchase Plan. From 2014 to 2016, 12,999,450 ordinary shares had been purchased under the 2009 Purchase Plan.

Stock Option Plans

In 1997, the Board adopted the 1997 Stock Plan, and in 1999, adopted the 1999 Stock Incentive Plan. The plans provide for the granting of stock options to employees, directors and consultants of the Company.

Under the 1997 Stock Plan, the Board reserved 185,000,000 ordinary shares for issuance. After the completion of an initial public offering, no further options were granted under the 1997 Stock Plan. Under the 1999 Stock Incentive Plan, the maximum aggregate number of shares available for grant was 150,000,000 ordinary shares plus an annual increase on January 1 of each year, which commenced in 2001, equal to the lesser of 75,000,000 shares or 4% of the outstanding ordinary shares on the last day of the preceding fiscal year or a smaller number determined by the plan administrator. As of December 31, 2016, the number of stock options outstanding and exercisable was both 0 under the 1999 Stock Incentive Plan.

The Board adopted the 2005 Share Option Plan ("2005 SOP"), which was effective on March 2, 2006, the date the Company completed the listing on the SEHK. The adoption of the 2005 SOP also resulted in the Board terminating the 1997 Stock Plan and 1999 Stock Incentive Plan. The Company began issuing stock options solely under the 2005 SOP for up to 100,000,000 ordinary shares. As approved by the EGM held on May 30, 2009, the number of shares available for issue was increased from 100,000,000 to 175,000,000 shares. The references to Hong Kong and Hong Kong related rules and regulations were also removed along with the completion of the Company's delisting from the SEHK in 2009. As approved by the AGM held on June 22, 2012, additional 50,000,000 ordinary shares were reserved for issuance under the 2005 SOP. Under the terms of the 2005 SOP, stock options are generally granted at fair market value of the Company's ordinary shares. The stock options have a contractual term of 8 years from the date of grant and vest over a requisite service period of 4 years. As of December 31, 2016, the number of stock options outstanding and exercisable was 166,957,900 and 131,774,600, respectively, under the 2005 SOP.

In 2015, the Board adopted the 2015 Stock Incentive Plan (“2015 SIP”), which was approved by the Shareholders in July 2015, and replaced the 2005 SOP after it expired on March 2, 2016. The 2015 SIP succeeded the 2005 SOP and the 2005 Share Incentive Plan (“2005 SIP”). The 2015 SIP provides for the granting to employees of incentive stock options, restricted shares, cash dividend equivalent rights, RSUs or stock appreciation rights or similar right (collectively referred to as “Awards”) to the employees, directors and consultants of the Company. The maximum aggregate number of new shares reserved for issuance pursuant to all Awards under the 2015 SIP is 100,000,000 ordinary shares, plus the remaining balance rolled into the 2015 SIP from the 2005 SOP and 2005 SIP, respectively. The maximum number of and kind of Awards granted under the 2015 SIP shall not each exceed 125,000,000 ordinary shares. The Awards granted are generally vested over a requisite service period of 4 years. As of December 31, 2016, the number of stock options outstanding and exercisable was 40,880,000 and 6,632,700, respectively, under the 2015 SIP.

A summary of the Company’s stock option activity under the plans as of December 31, 2016, and changes during the year then ended is presented as follows:

	Number of Options Shares	Weighted Average Exercise Price	Weighted Average Remaining Contract Life	Aggregate Intrinsic Value
Outstanding Options, January 1, 2016	177,528,800	$0.0869		
Granted	51,055,000	$0.0310		
Exercised	(84,750)	$0.0274		
Forfeited or expired	(20,661,150)	$0.1273		
Outstanding Options, December 31, 2016	207,837,900	$0.0692	4.38	$246,000
Vested and Expected to Vest Options at December 31, 2016	205,165,725	$0.0696	4.35	$229,000
Exercisable Options at December 31, 2016	138,407,300	$0.0808	3.20	$47,000

The total intrinsic value of options exercised during the years ended December 31, 2016, 2015, and 2014 was $1,000, $2,000, and $13,000, respectively.

The following table summarizes information about outstanding and vested stock options:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining	Weighted Average Exercise	Number Exercisable and Vested	Weighted Average Exercise

		Contractual Life	Price		Price
$0.0274 - $0.0314	41,528,150	7.21	$0.0305	8,127,950	$0.0304
$0.0338 - $0.0472	40,817,600	2.47	$0.0439	30,310,650	$0.0462
$0.0506 - $0.0750	50,921,850	5.03	$0.0625	38,091,550	$0.0635
$0.0776 - $0.1040	33,986,400	4.98	$0.0841	21,293,250	$0.0865
$0.1122 - $0.1636	40,583,900	2.10	$0.1301	40,583,900	$0.1301
Balance, December 31, 2016	207,837,900	4.38	$0.0692	138,407,300	$0.0808

The Company calculated the fair value of each option grant on the date of grant using the Black-Scholes option pricing model that use the assumptions in the following table. Risk-free interest rate is based on the US Treasury yield curve in effect at the time of grant. The Company uses the simplified method to estimate the expected life because the options are considered as plain vanilla share-based payment awards. Expected volatilities are based on historical volatility of stock prices for a period equal to the options' expected term. The dividend yield is zero as the Company has never declared or paid dividends on the ordinary shares or other securities and does not anticipate paying dividends in the foreseeable future.

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	Stock Options			Employee Stock Purchase Plan		
	Years Ended December 31			Years Ended December 31		
	2016	2015	2014	2016	2015	2014
Risk-free interest rate	1.14%- 1.33%	1.18%- 1.50%	1.49%- 1.76%	0.22%-0.35%	0.01%-0.08%	0.02%-0.05%
Expected life (Years)	5	5	5	0.25 -0.26	0.25 -0.26	0.25 -0.26
Volatility	34%	33% - 36%	34% - 37%	34% -48%	35% -48%	30% -45%
Dividend	-	-	-	-	-	-

The weighted-average grant-date fair value of options granted during the years ended December 31, 2016, 2015, and 2014 was $0.0097, $0.0127, and $0.0245, respectively. The weighted-average fair value of options granted under the 2009 Purchase Plan during the years ended December 31, 2016, 2015, and 2014 was $0.0054, $0.008, and $0.0104, respectively.

Share Incentive Plan

The Board adopted the 2005 SIP, which was effective on March 2, 2006, the date the Company completed the SEHK listing. The 2005 SIP provides for the grant of restricted shares, RSU, share appreciation rights and dividend equivalent rights up to 75,000,000 ordinary shares. As approved by the EGM held on May 30, 2009, the number of shares available for issue was increased from 75,000,000 to 125,000,000 shares. The references to Hong Kong and Hong Kong related rules and regulations were also removed along with the completion of the Company's delisting from the SEHK. As approved by the AGM held on June 22, 2012, an additional 62,500,000 ordinary shares were reserved for issuance under the 2005 SIP. These awards under 2005 SIP may be granted to employees, directors and consultants of the Company. The granted RSUs are generally vested over a requisite service period of 4 years. In 2015, the Board adopted the 2015 SIP, which was approved by the Shareholders in July 2015, and replaced the 2005 SIP after it expired on March 2, 2016. Please refer to above discussions for 2015 SIP.

A summary of the status of the Company's RSUs as of December 31, 2016, and changes during the year ended December 31, 2016, is presented as follows:

	Number of Outstanding RSUs	Weighted Average Grant-Date Fair Value
Nonvested at January 1, 2016	50,608,350	$ 0.0588
Granted	34,786,850	$ 0.0303
Vested	(18,056,150)	$ 0.0647
Forfeited and expired	(9,401,200)	$ 0.0441

Nonvested at December 31, 2016	57,937,850	$ 0.0438

As of December 31, 2016, there was $2,326,000 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the plans including stock options and RSUs. The cost is expected to be recognized over a weighted-average period of 2.35 years. The total fair value of RSUs vested during the years ended December 31, 2016, 2015, and 2014 was $1,169,000, $1,246,000, and $1,189,000, respectively.

Cash received from option exercise under all share-based payment arrangements for the years ended December 31, 2016, 2015, and 2014, was $75,000, $211,000, and $302,000, respectively.

Ordinary Shares Reserved

As of December 31, 2016, ordinary shares reserved for future issuance were as follows:

Outstanding stock options	207,837,900
Outstanding RSUs	57,937,850
Shares reserved for future Awards grants	104,372,900
Shares reserved for Employee Stock Purchase Plan	2,620,450
	372,769,100

Shares issued for the exercise of stock options, Employee Stock Purchase Plan and shares vested under restricted stock units are mainly from the treasury shares.

16. EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share is calculated by dividing net income (loss) by the weighted average number of ordinary shares outstanding during the period. Diluted earnings (loss) per share is calculated by dividing net income (loss) by the weighted average number of ordinary and dilutive ordinary equivalent shares outstanding during the period, using the treasury stock method for options.

A reconciliation of the numerator and denominator of basic and diluted earnings (loss) per share calculations was as follows:

	Years Ended December 31		
	2016	2015	2014
Net loss (in thousands)	$(2,986)	$(21,095)	$(15,057)
Weighted average shares outstanding (in thousands) – basic	1,282,141	1,301,465	1,362,465
Effect of dilutive securities:			
Options and RSUs (in thousands)	-	-	-
Weighted average shares outstanding (in thousands) – diluted	1,282,141	1,301,465	1,362,465
Loss per share – basic and diluted	$-	$(0.02)	$(0.01)

Certain outstanding options and RSUs were excluded from the computation of diluted EPS since their effect would have been anti-dilutive. The anti-dilutive stock options excluded and their associated exercise prices per share were 207,837,900 shares at $0.0274 to $0.1636 as of December 31, 2016, 177,528,800 shares at $0.0454 to $0.2176 as of December 31, 2015, and 228,666,600 shares at $0.0460 to $0.3462 as of December 31, 2014. The anti-dilutive RSUs excluded were 57,937,850, 50,608,350 shares, and 46,823,850 shares as of December 31, 2016, 2015, and 2014, respectively.

17. COMMITMENTS

Lease Commitments

The Company leases office space and certain equipment under non-cancelable operating lease agreements that expire at various dates through December 2020. For the years ended December 31, 2016, 2015, and 2014, leasing costs charged to income in relation to these agreements were $1,899,000, $2,106,000, and $2,415,000, respectively. The Company's office lease provides for periodic rental increases based on the general inflation rate.

As of December 31, 2016, future minimum lease payments under all non-cancelable operating lease agreements were as follows:

(In Thousands)

Year	Operating Leases
2017	$ 1,216
2018	356
2019	202
2020	68
Total minimum lease payments	$ 1,842

Purchase obligations and commitments include payments due under various types of license, maintenance and support agreements with contractual terms from one to two years. As of December 31, 2016, those purchase commitments were as follows:

(In Thousands)

Year	
2017	$236
2018	39
Total	$275

18. CONTINGENCIES

Legal Proceedings

The Company is involved in several litigation matters relating to its intellectual property, as detailed below. While the Company cannot make any assurances regarding the eventual resolution of these matters, the Company does not believe at this time that the final outcomes will have a material adverse effect on its consolidated results of operations or financial condition.

O_2Micro, Inc. v. Texas Instruments Japan Limited. In November 2013, the Company filed a patent infringement suit against Texas Instruments Japan Limited (“Texas Instrument”) in the Civil Division of the Tokyo District Court. The matter was closed in August 2016 with the Court finding no infringement by the defendant on the Japanese patent in question, and the Company electing not to file an appeal.

O_2Micro (China) Co., Ltd. v. Legendsec Information Technology (Beijing) Inc., et al., Chengdu Intermediate Court, China. The Company filed a trade secret infringement suit against Yunfeng Li, Chengdu Feitong Technology Co., Ltd. and Legendsec Information Technology (Beijing) Inc. (“Legendsec”) in Chengdu Intermediate Court on August 18, 2014, requesting the three defendants to stop the infringement actions and claim for compensatory damages. Four hearings have been held since October 2014. O_2Micro (China) and Yunfeng Li reached and signed a settlement agreement on December 29, 2016 and the case has been withdrawn. The matter is now closed.

O_2Micro (China) Co., Ltd. v. Legendsec Information Technology (Beijing) Inc., Beijing Haidian District People's Court, China. The Company filed a copyright infringement suit against Legendsec Information Technology (Beijing) Inc. in Beijing Haidian District People's Court on November 19, 2014, requesting the defendant to stop the infringement actions and claim for compensatory damages. The first hearing was held on March 16, 2015. The second hearing was held on April 22, 2015. The third hearing was held on May 19, 2015. The Court made a judgment to reject the Company’s claim on July 3, 2015. The Company appealed to Beijing Intellectual Property Court on July 14, 2015. The first hearing of the second trial was held on December 23, 2015. The Court made a final judgment to reject the Company’s appeal and sustain the original judgment on February 26, 2016. The matter is now closed.

O_2Micro (China) Co., Ltd. v. Nanjing AnalogChipTech Semiconductor Co., Ltd.,et al., Nanjing Intermediate Court, China. The Company filed a patent infringement suit against Nanjing AnalogChipTech Semiconductor Co., Ltd., and Nantong Minghui Power Tools Co., Ltd. in Nanjing Intermediate Court on October 29, 2015, requesting two defendants to stop the infringement action, destroy the infringing products and claim for compensatory damages. The first hearing was held on January 18, 2016. All parties reached and signed a settlement agreement on January 18, 2016 and this case is now closed.

O_2Micro (China) Co., Ltd. v. Nanjing AnalogChipTech Semiconductor Co, Ltd.,et al., Nanjing Intermediate Court, China. The Company filed a trade secret infringement suit against Xiaohu Tang and Nanjing AnalogChipTech Semiconductor Co., Ltd. in Nanjing Intermediate Court on October 29, 2015, requesting two defendants to stop the infringement action, destroy the infringing products and claim for compensatory damages. The first hearing was held on January 11, 2016. All parties reached and signed a settlement agreement on January 18, 2016 and this case is now closed.

The Company received $23,000, $0, and $$75,000 litigation income in relation to litigation cases in China or the United States for the years ended December 31, 2016, 2015, and 2014, respectively. The Company subsequently received $19,000 litigation income in relation to litigation cases in China in January 2017.

The Company, as a normal course of business, is a party to litigation matters, legal proceedings, and claims. These actions may be in various jurisdictions and may involve patent protection and/or infringement. While the results of such litigations and claims cannot be predicted with certainty, the final outcome of such matters is not expected to have a material adverse effect on its consolidated financial position or results of operations. No assurance can be given, however, that these matters will be resolved without the Company becoming obligated to make payments or to pay other costs to the opposing parties, with the potential for having an adverse effect on the Company’s financial position or its results of operations. No provision for any litigation has been provided as of December 31, 2016 and 2015.

19. FINANCIAL INSTRUMENTS

Information on the Company’s financial instruments was as follows:

(In Thousands)

	December 31			
	2016		2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Cash and cash equivalents	$31,332	$31,332	$41,199	$41,199
Restricted cash	32	32	31	31
Short-term investments	21,532	21,532	11,233	11,233

The carrying amounts of cash and cash equivalents, restricted cash and short-term investments reported in the consolidated balance sheets approximate their estimated fair values.

Long-term investments are in privately-held companies where there is no readily determinable market value and are recorded using the cost method. Since they entail an unreasonable high cost to obtain verifiable fair values, fair value is not presented. The Company periodically evaluates these investments for impairment. If it is determined that an other-than-temporary decline has occurred in the carrying value, an impairment loss is recorded in the period of decline in value.

20. SEGMENT INFORMATION

The Company does not identify or allocate assets by operating segment, nor does the chief operating decision maker ("CODM") evaluate operating segments using discrete asset information. The Company does not have inter-segment revenue, and, accordingly, there is none to be reported. The Company does not allocate gains and losses from interest and other income, or income taxes to operating segments. The accounting policies for segment reporting are the same as for the Company as a whole.

Net sales to unaffiliated customers by geographic region are based on the customer's ship-to location and were as follows:

(In Thousands)

	Years Ended December 31		
	2016	2015	2014
China	$46,784	$45,854	$55,133
Taiwan	3,009	2,274	2,022
Japan	2,535	3,759	4,490
Korea	2,257	879	288
Singapore	1,539	1,398	1,341
Other	437	677	317
	$56,561	$54,841	$63,591

For the years ended December 31, 2016 and 2015, only one customer accounted for 10% or more of net sales. For the year ended December 31, 2014, two customers accounted for 10% or more of net sales. The percentage of net sales to these customers was as follows:

	Years Ended December 31		
	2016	2015	2014
Customer A	10 %	11 %	12 %
Customer B	8 %	8 %	10 %

Long-lived assets consisted of property and equipment and were as follows based on the physical location of the assets at the end of each year:

(In Thousands)

	December 31		
	2016	2015	2014
Taiwan	$5,607	$5,813	$8,689
U.S.A.	4,176	4,162	4,188
China	3,920	3,997	6,363
Other	33	39	123
	$13,736	$14,011	$19,363