

Non-GAAP Financial Measures

We provide non-GAAP gross margin, non-GAAP net income (loss), and non-GAAP earnings per share to eliminate the impact of items that we do not consider indicative of our overall operating performance. To arrive at our non-GAAP gross margin, we exclude stock-based compensation expense, expenses associated with discontinued products, and non-recurring expenses, if any, from our GAAP gross margin. To arrive at our non-GAAP net income (loss), we exclude all amortization of intangible assets, stock-based compensation expense, non-recurring expenses, unrealized foreign exchange gain (loss), losses from the disposal of idle assets, if any, non-GAAP tax expenses (benefits), and expenses associated with discontinued products, if any, from our GAAP net income (loss). Included in our non-recurring expenses in Q1 2020 and Q1 2019 are certain one-time legal (if any) and consulting fees (if any) and employee severance expenses (if any). In computing our non-GAAP income tax expense (benefit), we have applied an estimate of our annual effective income tax rate and applied it to our net income before income taxes.

Our non-GAAP earnings per share is calculated by dividing our non-GAAP net income by the fully diluted share count (for periods in which non-GAAP net income is positive) or basic share count (for periods in which our non-GAAP net income is negative). We believe that our non-GAAP measures are useful to investors in evaluating our operating performance for the following reasons:

- We believe that elimination of items such as amortization of intangible assets, stock-based compensation expense, non-recurring revenue and expenses, losses from the disposal of idle assets, unrealized foreign exchange gain or loss, unamortized debt issuance costs associated with the extinguishment of debt, and depreciation on certain equipment undergoing reconfiguration is appropriate because treatment of these items may vary for reasons unrelated to our overall operating performance;
- We believe that elimination of expenses associated with discontinued products, including depreciation and inventory obsolescence is appropriate because these expenses are not indicative of our ongoing operations;
- We believe that non-GAAP measures provide better comparability with our past financial performance, period-to-period results and with our peer companies, many of which also use similar non-GAAP financial measures; and
- We anticipate that investors and securities analysts will utilize non-GAAP measures as a supplement to GAAP measures to evaluate our overall operating performance.

A reconciliation of our GAAP net income (loss) and GAAP earnings (loss) per share for Q1 2020 to our non-GAAP net income (loss) and earnings (loss) per share is provided below, together with corresponding reconciliations for the quarter period ended March 31, 2019.

Non-GAAP measures should not be considered as an alternative to net income (loss), earnings (loss) per share, or any other measure of financial performance calculated and presented in accordance with GAAP. Our non-GAAP measures may not be comparable to similarly titled measures of other organizations because other organizations may not calculate such other non-GAAP measures in the same manner. We have not reconciled the non-GAAP measures included in our guidance to the appropriate GAAP financial measures because the GAAP measures are not readily determinable on a forward-looking basis. GAAP measures that impact our non-GAAP financial measures may include stock-based compensation expense, non-recurring expenses, amortization of intangible assets, unrealized exchange loss (gain), asset impairment charges, and loss (gain) from disposal of idle assets. These GAAP measures cannot be reasonably predicted and may directly impact our non-GAAP gross margin, our non-GAAP net income and our non-GAAP fully-diluted earnings per share, although changes with respect to certain of these measures may offset other changes. In addition, certain of these measures are out of our control. Accordingly, a reconciliation of the non-GAAP financial measure guidance to the corresponding GAAP measures is not available without unreasonable effort.

Applied Optoelectronics, Inc.
Consolidated Balance Sheet

(In thousands)

Preliminary Unaudited

| | 3/31/2018 | 6/30/2018 | 9/30/2018 | 12/31/2018 | 3/31/2019 | 6/30/2019 | 9/30/2019 | 12/31/2019 | 3/31/2020 |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| ASSETS | | | | | | | | | |
| CURRENT ASSETS | | | | | | | | | |
| Cash and Cash Equivalents | 82,251 | 76,190 | 62,402 | 55,646 | 74,930 | 81,070 | 69,994 | 59,977 | 55,908 |
| Restricted Cash | 1,048 | 1,753 | 1,695 | 2,358 | 2,529 | 2,917 | 2,382 | 7,051 | 6,609 |
| Short term Investment | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total Cash, Cash Equivalents and Short Term Investments | 83,299 | 77,943 | 64,097 | 58,004 | 77,459 | 83,987 | 72,376 | 67,028 | 62,517 |
| Accounts Receivable | | | | | | | | | |
| Allowance for doubtful accounts | | | | | | | | | |
| Accounts Receivable, Net | 53,655 | 48,668 | 32,028 | 30,534 | 32,123 | 28,406 | 29,709 | 34,655 | 25,783 |
| Inventories | 92,624 | 93,269 | 107,905 | 93,256 | 84,464 | 81,475 | 82,118 | 85,028 | 87,109 |
| Notes Receivable | 0 | 0 | 0 | 0 | 79 | 136 | 0 | 0 | 0 |
| Prepaid Income Tax | 1,326 | 638 | 763 | 1,188 | 1,423 | 1,312 | 759 | 224 | 375 |
| Prepaid Expenses and Other Current Assets | 10,921 | 10,070 | 10,377 | 11,293 | 7,726 | 5,719 | 5,685 | 5,869 | 6,904 |
| Total Current Assets | 241,825 | 230,588 | 215,170 | 194,275 | 203,274 | 201,035 | 190,647 | 192,804 | 182,688 |
| Cash Restricted for Construction in Progress | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Property, Plant And Equipment, Net | 204,644 | 212,105 | 222,545 | 234,211 | 242,623 | 247,887 | 245,535 | 248,444 | 243,717 |
| Land Use Rights, Net | 6,448 | 6,096 | 5,832 | 5,814 | 5,894 | 5,743 | 5,551 | 5,598 | 5,481 |
| Right of use asset | 0 | 0 | 0 | 0 | 8,293 | 7,912 | 7,738 | 7,887 | 7,756 |
| Intangible Assets, Net | 4,015 | 3,978 | 3,971 | 3,977 | 4,001 | 4,028 | 4,072 | 4,081 | 4,051 |
| Deferred Income Tax Assets | 13,935 | 13,151 | 18,493 | 21,714 | 24,188 | 27,437 | 29,362 | 7,287 | 9,078 |
| Other Assets | 4,750 | 6,286 | 15,074 | 6,849 | 2,932 | 1,080 | 973 | 724 | 765 |
| TOTAL ASSETS | 475,617 | 472,204 | 481,085 | 466,840 | 491,205 | 495,122 | 483,878 | 466,825 | 453,536 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | | | | | |
| CURRENT LIABILITIES | | | | | | | | | |
| Accounts Payable | 46,223 | 51,429 | 53,706 | 29,910 | 28,332 | 31,526 | 28,074 | 32,828 | 36,236 |
| Accrued Income Taxes | 7,588 | 464 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Current Lease Liability | | | | | 1,053 | 903 | 924 | 982 | 955 |
| Accrued Expenses | 13,358 | 16,651 | 20,723 | 19,291 | 12,424 | 13,986 | 15,542 | 17,864 | 10,678 |
| Bank Acceptance Payable | 0 | 0 | 0 | 4,628 | 5,198 | 2,532 | 4,080 | 6,310 | 9,550 |
| Current Portion of Notes Payable and Long Term Debt | 2,690 | 3,161 | 8,275 | 23,589 | 18,168 | 19,180 | 15,803 | 33,371 | 38,096 |
| Total Current Liabilities | 69,859 | 71,705 | 82,704 | 77,418 | 65,175 | 68,127 | 64,423 | 91,355 | 95,515 |
| Notes Payable and Long Term Debt | 62,464 | 57,868 | 62,896 | 60,328 | 17,535 | 30,468 | 32,373 | 16,552 | 15,315 |
| Convertible Senior Notes | | | | | 76,439 | 76,630 | 76,835 | 77,041 | 77,235 |
| Non-Current Lease Liability | | | | | 8,438 | 8,182 | 7,962 | 8,083 | 7,973 |
| Other Long-Term Liabilities | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTAL LIABILITIES | 132,323 | 129,573 | 145,600 | 137,746 | 167,587 | 183,407 | 181,593 | 193,031 | 196,038 |
| STOCKHOLDERS' EQUITY | | | | | | | | | |
| Common Stock | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 | 20 |
| Additional Paid-in Capital | 286,938 | 288,686 | 290,070 | 292,480 | 295,130 | 297,922 | 300,725 | 303,401 | 306,305 |
| Cumulative Translation Adjustment | 16,078 | 5,633 | 835 | 602 | 2,950 | (379) | (3,832) | 430 | (1,972) |
| Retained Earnings (Accumulated Deficit) | 40,258 | 48,292 | 44,560 | 35,992 | 25,518 | 14,152 | 5,372 | (30,057) | (46,855) |
| TOTAL STOCKHOLDERS' EQUITY | 343,294 | 342,631 | 335,485 | 329,094 | 323,618 | 311,715 | 302,285 | 273,794 | 257,498 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | 475,617 | 472,204 | 481,085 | 466,840 | 491,205 | 495,122 | 483,878 | 466,825 | 453,536 |

Applied Optoelectronics, Inc.
Consolidated Statement of Operations

(In thousands, except percentages and per share data)

| | 1Q18 | 2Q18 | 3Q18 | 4Q18 | CY2018 | 1Q19 | 2Q19 | 3Q19 | 4Q19 | CY2019 | 1Q20 |
|--|----------------|---------------|----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Revenue | | | | | | | | | | | |
| Datacenter | 50,583 | 69,040 | 38,954 | 41,659 | 200,236 | 38,499 | 31,806 | 34,006 | 39,252 | 143,563 | 33,264 |
| CATV | 10,568 | 14,184 | 14,295 | 12,652 | 51,699 | 11,962 | 9,818 | 8,797 | 6,753 | 37,330 | 4,223 |
| Telecom | 3,586 | 4,157 | 2,656 | 2,760 | 13,159 | 1,738 | 1,630 | 2,868 | 2,193 | 8,429 | 2,560 |
| FTTH | 111 | 166 | 221 | 320 | 818 | 94 | 16 | 39 | 41 | 190 | 0 |
| Other | 391 | 275 | 260 | 627 | 1,553 | 426 | 141 | 374 | 419 | 1,360 | 420 |
| Total Revenues | 65,239 | 87,822 | 56,386 | 58,018 | 267,465 | 52,719 | 43,411 | 46,084 | 48,658 | 190,872 | 40,467 |
| YOY Growth % | -32.2% | -25.2% | -36.6% | -27.3% | -30.0% | -19.2% | -50.6% | -18.3% | -16.1% | 229.0% | -84.9% |
| Cost of Goods Sold | 39,403 | 53,959 | 38,849 | 47,481 | 179,692 | 40,368 | 32,873 | 34,108 | 37,322 | 144,671 | 34,129 |
| COGS % of Revenue | 60.4% | 61.4% | 68.9% | 81.8% | 67.2% | 76.6% | 75.7% | 74.0% | 76.7% | 75.8% | 84.3% |
| Gross Profit | 25,836 | 33,863 | 17,537 | 10,537 | 87,773 | 12,351 | 10,538 | 11,976 | 11,336 | 46,201 | 6,338 |
| Gross Margin | 39.6% | 38.6% | 31.1% | 18.2% | 32.8% | 23.4% | 24.3% | 26.0% | 23.3% | 24.2% | 15.7% |
| Operating Expenses: | | | | | | | | | | | |
| Research and Development | 11,736 | 12,645 | 14,180 | 11,342 | 49,903 | 11,185 | 11,151 | 10,466 | 10,597 | 43,399 | 10,558 |
| R&D % of Revenue | 18.0% | 14.4% | 25.1% | 19.5% | 18.7% | 21.2% | 25.7% | 22.7% | 21.8% | 22.7% | 26.1% |
| Sales and Marketing | 2,474 | 2,377 | 2,370 | 1,920 | 9,141 | 2,595 | 2,331 | 2,518 | 2,615 | 10,059 | 2,936 |
| S&M % of Revenue | 3.8% | 2.7% | 4.2% | 3.3% | 3.4% | 4.9% | 5.4% | 5.5% | 5.4% | 5.3% | 7.3% |
| General and Administrative | 9,456 | 9,898 | 10,591 | 9,552 | 39,497 | 10,440 | 10,884 | 9,988 | 10,178 | 41,490 | 10,638 |
| G&A % of Revenue | 14.5% | 11.3% | 18.8% | 16.5% | 14.8% | 19.8% | 25.1% | 21.7% | 20.9% | 21.7% | 26.3% |
| Total Operating Expenses | 23,666 | 24,920 | 27,141 | 22,814 | 98,541 | 24,220 | 24,366 | 22,972 | 23,390 | 94,948 | 24,132 |
| Operating Expenses % of Revenue | 36.3% | 28.4% | 48.1% | 39.3% | 36.8% | 45.9% | 56.1% | 49.8% | 48.1% | 49.7% | 59.6% |
| Operating Income (Loss) | 2,170 | 8,943 | (9,604) | (12,277) | (10,768) | (11,869) | (13,828) | (10,996) | (12,054) | (48,747) | (17,794) |
| Operating Margin | 3.3% | 10.2% | -17.0% | -21.2% | -4.0% | -22.5% | -31.9% | -23.9% | -24.8% | -25.5% | -44.0% |
| Other Income (Expense): | | | | | | | | | | | |
| Interest Income | 52 | 85 | 86 | 59 | 282 | 72 | 310 | 347 | 196 | 925 | 147 |
| Interest Expense | (71) | (279) | (274) | (482) | (1,106) | (996) | (1,490) | (1,517) | (1,402) | (5,405) | (1,455) |
| Other Income (Expense) | 13 | 292 | 217 | 629 | 1,151 | 78 | 235 | 1,124 | 383 | 1,820 | 117 |
| Foreign Exchange Gain (Loss) | (1,040) | 1,289 | 549 | (135) | 663 | (233) | 216 | 322 | (286) | 19 | 139 |
| Total Other Income (Expense): | (1,046) | 1,387 | 578 | 71 | 990 | (1,079) | (729) | 276 | (1,109) | (2,641) | (1,052) |
| Other Income % of Revenue | -1.6% | 1.6% | 1.0% | 0.1% | 0.4% | -2.0% | -1.7% | 0.6% | -2.3% | -1.4% | -2.6% |
| Net Income (Loss) before Income Taxes | 1,124 | 10,330 | (9,026) | (12,206) | (9,778) | (12,948) | (14,557) | (10,720) | (13,163) | (51,388) | (18,846) |
| Net Margin | 1.7% | 11.8% | -16.0% | -21.0% | -3.7% | -24.6% | -33.5% | -23.3% | -27.1% | -26.9% | -46.6% |
| Income Tax Benefit (Expense) | 996 | (2,296) | 5,294 | 3,638 | 7,632 | 2,474 | 3,191 | 1,940 | (22,267) | (14,662) | 2,049 |
| Net Income (Loss) | 2,120 | 8,034 | (3,732) | (8,568) | (2,146) | (10,474) | (11,366) | (8,780) | (35,430) | (66,050) | (16,797) |
| Net Margin after Taxes | 3.2% | 9.1% | -6.6% | -14.8% | -0.8% | -19.9% | -26.2% | -19.1% | -72.8% | -34.6% | -41.5% |
| Earnings per share (Basic) | \$ 0.11 | \$ 0.41 | \$ (0.19) | \$ (0.43) | \$ (0.11) | \$ (0.53) | \$ (0.57) | \$ (0.44) | \$ (1.76) | \$ (3.31) | \$ (0.83) |
| Earnings per share (Diluted) | \$ 0.11 | \$ 0.40 | \$ (0.19) | \$ (0.43) | \$ (0.11) | \$ (0.53) | \$ (0.57) | \$ (0.44) | \$ (1.76) | \$ (3.31) | \$ (0.83) |
| Shares used to compute GAAP basic earnings per share | 19,492 | 19,590 | 19,707 | 19,793 | 19,647 | 19,863 | 19,932 | 20,023 | 20,109 | 19,982 | 20,208 |
| Shares used to compute GAAP diluted earnings per share | 19,989 | 20,080 | 19,707 | 19,793 | 19,647 | 19,863 | 19,932 | 20,023 | 20,109 | 19,982 | 20,208 |

Applied Optoelectronics, Inc.
Consolidated Statement of Operations

NON GAAP
(In thousands, except percentages and per share data)
Preliminary Unaudited

| | 1Q18 | 2Q18 | 3Q18 | 4Q18 | CY2018 | 1Q19 | 2Q19 | 3Q19 | 4Q19 | CY2019 | 1Q20 |
|--|----------------|---------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-----------------|-----------------|
| Revenue | | | | | | | | | | | |
| Datacenter | 50,583 | 69,040 | 38,954 | 42,550 | 201,127 | 38,499 | 31,806 | 34,006 | 39,252 | 143,563 | 33,264 |
| CATV | 10,568 | 14,184 | 14,295 | 12,652 | 51,699 | 11,962 | 9,818 | 8,797 | 6,753 | 37,330 | 4,223 |
| Telecom | 3,586 | 4,157 | 2,656 | 2,760 | 13,159 | 1,738 | 1,630 | 2,868 | 2,193 | 8,429 | 2,560 |
| FTTH | 111 | 166 | 221 | 320 | 818 | 94 | 16 | 39 | 41 | 190 | 0 |
| Other | 391 | 275 | 260 | 627 | 1,553 | 426 | 141 | 374 | 419 | 1,360 | 420 |
| Total Revenues | 65,239 | 87,822 | 56,386 | 58,909 | 268,356 | 52,719 | 43,411 | 46,084 | 48,658 | 190,872 | 40,467 |
| YOY Growth % | -32.2% | -25.2% | -36.6% | -26.2% | -29.8% | -19.2% | -50.6% | -18.3% | -17.4% | 224.0% | -84.9% |
| Cost of Goods Sold | 39,148 | 52,316 | 37,232 | 44,384 | 173,080 | 39,254 | 31,607 | 32,794 | 35,242 | 138,897 | 32,559 |
| COGS % of Revenue | 60.0% | 59.6% | 66.0% | 75.3% | 64.5% | 74.5% | 72.8% | 71.2% | 72.4% | 72.8% | 80.5% |
| Gross Profit | 26,091 | 35,506 | 19,154 | 14,525 | 95,276 | 13,465 | 11,804 | 13,290 | 13,416 | 51,975 | 7,908 |
| Gross Margin | 40.0% | 40.4% | 34.0% | 24.7% | 35.5% | 25.5% | 27.2% | 28.8% | 27.6% | 27.2% | 19.5% |
| Operating Expenses: | | | | | | | | | | | |
| Research and Development | 10,409 | 10,922 | 12,698 | 10,512 | 44,541 | 10,545 | 10,494 | 9,819 | 9,983 | 40,841 | 9,658 |
| R&D % of Revenue | 16.0% | 12.4% | 22.5% | 17.8% | 16.6% | 20.0% | 24.2% | 21.3% | 20.5% | 21.4% | 23.9% |
| Sales and Marketing | 2,247 | 2,116 | 2,189 | 1,664 | 8,216 | 2,324 | 2,052 | 2,244 | 2,370 | 8,990 | 2,627 |
| S&M % of Revenue | 3.4% | 2.4% | 3.9% | 2.8% | 3.1% | 4.4% | 4.7% | 4.9% | 4.9% | 4.7% | 6.5% |
| General and Administrative | 7,458 | 7,732 | 7,896 | 6,545 | 29,631 | 7,381 | 6,938 | 6,309 | 7,061 | 27,689 | 7,158 |
| G&A % of Revenue | 11.4% | 8.8% | 14.0% | 11.1% | 11.0% | 14.0% | 16.0% | 13.7% | 14.5% | 14.5% | 17.7% |
| Total Operating Expenses | 20,114 | 20,770 | 22,783 | 18,721 | 82,388 | 20,250 | 19,484 | 18,372 | 19,413 | 77,519 | 19,443 |
| Operating Expenses % of Revenue | 30.8% | 23.7% | 40.4% | 31.8% | 30.7% | 38.4% | 44.9% | 39.9% | 39.9% | 40.6% | 48.0% |
| Operating Income (Loss) | 5,977 | 14,736 | (3,629) | (4,196) | 12,888 | (6,785) | (7,680) | (5,082) | (5,998) | (25,545) | (11,535) |
| Operating Margin | 9.2% | 16.8% | -6.4% | -7.1% | 4.8% | -12.9% | -17.7% | -11.0% | -12.3% | -13.4% | -28.5% |
| Other Income (Expense): | | | | | | | | | | | |
| Interest Income | 52 | 85 | 86 | 59 | 282 | 72 | 310 | 347 | 196 | 925 | 147 |
| Interest Expense | (71) | (279) | (274) | (482) | (1,106) | (823) | (1,490) | (1,517) | (1,402) | (5,232) | (1,455) |
| Other Income (Expense) | 13 | 292 | 217 | 636 | 1,158 | 78 | 235 | 1,124 | 383 | 1,820 | 117 |
| Foreign Exchange Gain (Loss) | (1,243) | 378 | 1,055 | (127) | 63 | (460) | 272 | 257 | (207) | (138) | (30) |
| Total Other Income (Expense): | (1,249) | 476 | 1,084 | 86 | 397 | (1,133) | (673) | 211 | (1,030) | (2,625) | (1,221) |
| Other Income % of Revenue | -1.9% | 0.5% | 1.9% | 0.1% | 0.1% | -2.1% | -1.6% | 0.5% | -2.1% | -1.4% | -3.0% |
| Net Income (Loss) before Income Taxes | 4,728 | 15,212 | (2,545) | (4,110) | 13,285 | (7,918) | (8,353) | (4,871) | (7,027) | (28,169) | (12,756) |
| Net Margin | 7.2% | 17.3% | -4.5% | -7.0% | 5.0% | -15.0% | -19.2% | -10.6% | -14.4% | -14.8% | -31.5% |
| Income Tax Benefit (Expense) | 882 | (2,344) | 5,294 | 3,638 | 7,470 | 2,474 | 3,191 | 1,940 | 3,468 | 11,073 | 3,964 |
| Net Income (Loss) | 5,610 | 12,868 | 2,749 | (472) | 20,755 | (5,444) | (5,162) | (2,931) | (3,559) | (17,096) | (8,792) |
| Net Margin after Income Tax | 8.6% | 14.7% | 4.9% | -0.8% | 7.7% | -10.3% | -11.9% | -6.4% | -7.3% | -9.0% | -21.7% |
| Depreciation & Amortization | 6,964 | 7,327 | 7,516 | 7,891 | 29,698 | 5,948 | 6,017 | 6,009 | 6,027 | 24,001 | 5,798 |
| Adjusted EBITDA | 11,584 | 22,608 | 5,034 | 4,075 | 43,301 | (2,366) | (2,405) | 1,057 | (1,003) | (4,717) | (6,815) |
| EBITDA Margin | 17.8% | 25.7% | 8.9% | 6.9% | 16.1% | -4.5% | -5.5% | 2.3% | -2.1% | -2.5% | -16.8% |
| Earnings per share (Basic) | \$ 0.29 | \$ 0.66 | \$ 0.14 | \$ (0.02) | \$ 1.06 | \$ (0.27) | \$ (0.26) | \$ (0.15) | \$ (0.18) | \$ (0.86) | \$ (0.44) |
| Earnings per share (Diluted) | \$ 0.28 | \$ 0.64 | \$ 0.14 | \$ (0.02) | \$ 1.04 | \$ (0.27) | \$ (0.26) | \$ (0.15) | \$ (0.18) | \$ (0.86) | \$ (0.44) |
| Shares used to compute Non-GAAP basic earnings per share | 19,492 | 19,590 | 19,707 | 19,793 | 19,647 | 19,863 | 19,932 | 20,023 | 20,109 | 19,982 | 20,208 |
| Shares used to compute Non-GAAP diluted earnings per share | 19,989 | 20,080 | 20,185 | 19,793 | 20,027 | 19,863 | 19,932 | 20,023 | 20,109 | 19,982 | 20,208 |

Applied Optoelectronics, Inc.
GAAP to Non-GAAP Reconciliation

(In thousands)

Preliminary Unaudited

| | 1Q18 | 2Q18 | 3Q18 | 4Q18 | CY2018 | 1Q19 | 2Q19 | 3Q19 | 4Q19 | CY2019 | 1Q20 |
|---|---------|--------|---------|----------|----------|----------|----------|----------|----------|----------|----------|
| GAAP revenue | 65,239 | 87,822 | 56,386 | 58,018 | 267,465 | 52,719 | 43,411 | 46,084 | 48,658 | 190,872 | 40,467 |
| Non-recurring customer credit | - | - | - | 891 | 891 | - | - | - | - | - | - |
| Non-GAAP revenue | 65,239 | 87,822 | 56,386 | 58,909 | 268,356 | 52,719 | 43,411 | 46,084 | 48,658 | 190,872 | 40,467 |
| GAAP total gross profit | 25,836 | 33,863 | 17,537 | 10,537 | 87,773 | 12,351 | 10,538 | 11,976 | 11,336 | 46,201 | 6,338 |
| Non-recurring customer credit | - | - | - | 891 | 891 | - | - | - | - | - | - |
| Share-based compensation expense | 177 | 211 | 205 | 202 | 795 | 189 | 199 | 197 | 189 | 774 | 246 |
| Non-recurring expense | 7 | - | - | 43 | 50 | - | - | - | - | - | 970 |
| Expenses associated with discontinued products | 71 | 1,432 | 1,412 | 2,852 | 5,767 | 925 | 1,067 | 1,117 | 1,891 | 5,000 | 354 |
| Non-GAAP income from gross profit | 26,091 | 35,506 | 19,154 | 14,525 | 95,276 | 13,465 | 11,804 | 13,290 | 13,416 | 51,975 | 7,908 |
| GAAP research and development expense | 11,736 | 12,645 | 14,180 | 11,342 | 49,903 | 11,185 | 11,151 | 10,466 | 10,597 | 43,399 | 10,558 |
| Share-based compensation expense | 576 | 676 | 623 | 544 | 2,419 | 640 | 657 | 647 | 614 | 2,558 | 688 |
| Non-recurring expense | - | 43 | - | 13 | 56 | - | - | - | - | - | 212 |
| Non-cash expenses associated with discontinued products | 751 | 1,004 | 859 | 273 | 2,887 | - | - | - | - | - | - |
| Non-GAAP research and development expense | 10,409 | 10,922 | 12,698 | 10,512 | 44,541 | 10,545 | 10,494 | 9,819 | 9,983 | 40,841 | 9,658 |
| GAAP sales and marketing expense | 2,474 | 2,377 | 2,370 | 1,920 | 9,141 | 2,595 | 2,331 | 2,518 | 2,615 | 10,059 | 2,936 |
| Share-based compensation expense | 227 | 261 | 181 | 256 | 925 | 271 | 279 | 274 | 245 | 1,069 | 291 |
| Non-recurring expense | - | - | - | - | - | - | - | - | - | - | 18 |
| Non-GAAP sales and marketing expense | 2,247 | 2,116 | 2,189 | 1,664 | 8,216 | 2,324 | 2,052 | 2,244 | 2,370 | 8,990 | 2,627 |
| GAAP general and administrative expense | 9,456 | 9,898 | 10,591 | 9,552 | 39,497 | 10,440 | 10,884 | 9,988 | 10,178 | 41,490 | 10,638 |
| Share-based compensation expense | 1,588 | 1,752 | 1,885 | 1,758 | 6,983 | 1,843 | 1,885 | 1,860 | 1,816 | 7,404 | 2,013 |
| Amortization expense | 126 | 127 | 125 | 128 | 506 | 130 | 133 | 137 | 140 | 540 | 141 |
| Non-recurring expense | 284 | 287 | 685 | 1,121 | 2,377 | 69 | 813 | 568 | 94 | 1,544 | 301 |
| Non-cash expenses associated with discontinued products | - | - | - | - | - | 1,017 | 1,115 | 1,114 | 1,067 | 4,313 | 1,025 |
| Non-GAAP general and administrative expense | 7,458 | 7,732 | 7,896 | 6,545 | 29,631 | 7,381 | 6,938 | 6,309 | 7,062 | 27,690 | 7,158 |
| GAAP total operating expense | 23,666 | 24,920 | 27,141 | 22,814 | 98,541 | 24,220 | 24,366 | 22,972 | 23,390 | 94,948 | 24,132 |
| Share-based compensation expense | 2,391 | 2,689 | 2,689 | 2,558 | 10,327 | 2,754 | 2,821 | 2,781 | 2,676 | 11,032 | 2,992 |
| Amortization expense | 126 | 127 | 125 | 128 | 506 | 130 | 133 | 137 | 140 | 540 | 141 |
| Non-recurring expense | 284 | 330 | 685 | 1,134 | 2,433 | 69 | 813 | 568 | 94 | 1,544 | 531 |
| Non-cash expenses associated with discontinued products | 751 | 1,004 | 859 | 273 | 2,887 | 1,017 | 1,115 | 1,114 | 1,067 | 4,313 | 1,025 |
| Non-GAAP total operating expense | 20,114 | 20,770 | 22,783 | 18,721 | 82,388 | 20,250 | 19,484 | 18,372 | 19,414 | 77,520 | 19,443 |
| GAAP operating income (loss) | 2,170 | 8,943 | (9,604) | (12,277) | (10,768) | (11,869) | (13,828) | (10,996) | (12,054) | (48,747) | (17,794) |
| Non-recurring customer credit | - | - | - | 891 | 891 | - | - | 0 | 0 | 0 | - |
| Share-based compensation expense | 2,569 | 2,900 | 2,894 | 2,757 | 11,120 | 2,943 | 3,020 | 2,978 | 2,864 | 11,805 | 3,238 |
| Amortization expense | 126 | 127 | 125 | 128 | 506 | 130 | 133 | 137 | 140 | 540 | 141 |
| Non-recurring expense | 290 | 330 | 685 | 1,180 | 2,485 | 69 | 813 | 568 | 94 | 1,544 | 1,501 |
| Expenses associated with discontinued products | 71 | 1,432 | 1,412 | 2,852 | 5,767 | 925 | 1,067 | 1,117 | 1,891 | 5,000 | 354 |
| Non-cash expenses associated with discontinued products | 751 | 1,004 | 859 | 273 | 2,887 | 1,017 | 1,115 | 1,114 | 1,067 | 4,313 | 1,025 |
| Non-GAAP operating income (loss) | 5,977 | 14,736 | (3,629) | (5,087) | 11,997 | (6,785) | (7,680) | (5,082) | (5,999) | (25,546) | (11,535) |
| GAAP other income (loss) | (1,046) | 1,387 | 578 | 71 | 990 | (1,079) | (729) | 276 | (1,109) | (2,641) | (1,052) |
| Loss (gain) from disposal of idle assets | - | - | - | 8 | 8 | - | - | - | - | - | - |
| Unrealized exchange loss (gain) | (203) | (911) | 506 | 7 | (601) | (227) | 56 | (65) | 79 | (157) | (169) |
| Non-recurring expense | 0 | 0 | 0 | 0 | 0 | 173 | - | - | - | 173 | - |
| Non-GAAP other income (loss) | (1,249) | 476 | 1,084 | 86 | 397 | (1,133) | (673) | 211 | (1,030) | (2,625) | (1,221) |

Applied Optoelectronics, Inc.
GAAP to Non-GAAP Reconciliation

(In thousands)

Preliminary Unaudited

| | 1Q18 | 2Q18 | 3Q18 | 4Q18 | CY2018 | 1Q19 | 2Q19 | 3Q19 | 4Q19 | CY2019 | 1Q20 |
|---|----------|----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| GAAP net income (loss) | 2,120 | 8,034 | (3,732) | (8,568) | (2,146) | (10,474) | (11,366) | (8,780) | (35,430) | (66,049) | (16,797) |
| Non-recurring customer credit | | | | 891 | 891 | - | - | - | - | - | - |
| Amortization of intangible assets | 126 | 127 | 125 | 128 | 506 | 130 | 133 | 137 | 140 | 540 | 141 |
| Share-based compensation expense | 2,569 | 2,900 | 2,894 | 2,757 | 11,120 | 2,943 | 3,020 | 2,978 | 2,864 | 11,804 | 3,238 |
| Non Recurring charges | 290 | 330 | 685 | 1,180 | 2,485 | 242 | 812 | 568 | 94 | 1,716 | 1,501 |
| Expenses associated with discontinued products | 71 | 1,432 | 1,412 | 2,852 | 5,767 | 925 | 1,067 | 1,117 | 1,891 | 5,000 | 354 |
| Non-cash expenses associated with discontinued products | 751 | 1,004 | 859 | 273 | 2,887 | 1,017 | 1,116 | 1,114 | 1,067 | 4,314 | 1,025 |
| Loss (gain) from disposal of idle assets | - | - | - | 8 | 8 | - | - | - | - | - | - |
| Unrealized exchange loss (gain) | (203) | (911) | 506 | 7 | (601) | (227) | 56 | (65) | 79 | (157) | (169) |
| Non-GAAP Tax Benefit | (114) | (48) | - | - | (162) | - | - | - | 25,736 | 25,736 | 1,915 |
| Non-GAAP net income (loss) | 5,610 | 12,868 | 2,749 | (472) | 20,755 | (5,444) | (5,162) | (2,931) | (3,559) | (17,096) | (8,792) |
| GAAP net income (loss) | 2,120 | 8,034 | (3,732) | (8,568) | (2,146) | (10,474) | (11,366) | (8,780) | (35,430) | (66,049) | (16,797) |
| Non-recurring customer credit | | | | 891 | 891 | - | - | - | - | - | - |
| Amortization of intangible assets | 126 | 127 | 125 | 128 | 506 | 130 | 133 | 137 | 140 | 540 | 141 |
| Share-based compensation expense | 2,569 | 2,900 | 2,894 | 2,757 | 11,120 | 2,943 | 3,020 | 2,978 | 2,864 | 11,804 | 3,238 |
| Depreciation expense | 6,837 | 7,202 | 7,391 | 7,762 | 29,192 | 5,817 | 5,883 | 5,872 | 5,887 | 23,459 | 5,657 |
| Non-recurring charges | 290 | 330 | 685 | 1,180 | 2,485 | 242 | 812 | 568 | 94 | 1,716 | 1,501 |
| Expenses associated with discontinued products | 71 | 1,432 | 1,412 | 1,603 | 4,518 | 925 | 1,067 | 1,117 | 1,891 | 5,000 | 354 |
| Loss (gain) from disposal of idle assets | - | - | - | 8 | 8 | - | - | - | - | - | - |
| Unrealized exchange loss (gain) | (203) | (911) | 506 | 7 | (601) | (227) | 56 | (65) | 79 | (157) | (169) |
| Interest (income) expense, net | 19 | 194 | 188 | 423 | 824 | 752 | 1,181 | 1,170 | 1,206 | 4,309 | 1,308 |
| Tax (benefit) expense related to the above | (996) | 2,296 | (5,294) | (3,638) | (7,632) | (2,474) | (3,191) | (1,940) | 22,267 | 14,662 | (2,048) |
| Adjusted EBITDA | \$10,833 | \$21,604 | \$4,175 | \$2,553 | \$39,165 | (2,366) | (2,405) | \$1,057 | (1,003) | (4,717) | (6,815) |
| GAAP diluted net income (loss) per share | \$ 0.11 | \$ 0.40 | \$ (0.19) | \$ (0.43) | \$ (0.11) | \$ (0.53) | \$ (0.57) | \$ (0.44) | \$ (1.76) | \$ (3.31) | \$ (0.83) |
| Non-recurring customer credit | | | | 0.05 | 0.04 | - | - | - | - | - | - |
| Amortization of intangible assets | 0.01 | 0.01 | 0.01 | 0.01 | 0.03 | 0.01 | 0.01 | 0.01 | 0.01 | 0.03 | 0.01 |
| Share-based compensation expense | 0.13 | 0.14 | 0.14 | 0.15 | 0.56 | 0.15 | 0.15 | 0.15 | 0.14 | 0.59 | 0.16 |
| Non Recurring charges | 0.01 | 0.02 | 0.03 | 0.06 | 0.12 | 0.01 | 0.04 | 0.03 | 0.00 | 0.09 | 0.07 |
| Expenses associated with discontinued products | 0.00 | 0.07 | 0.07 | 0.14 | 0.29 | 0.05 | 0.05 | 0.06 | 0.09 | 0.25 | 0.02 |
| Non-cash expenses associated with discontinued products | 0.04 | 0.05 | 0.04 | 0.01 | 0.14 | 0.05 | 0.06 | 0.05 | 0.05 | 0.22 | 0.05 |
| Loss (gain) from disposal of idle assets | - | - | - | 0.00 | 0.00 | - | - | - | - | - | - |
| Unrealized exchange loss (gain) | (0.01) | (0.05) | 0.04 | (0.01) | (0.03) | (0.01) | 0.00 | (0.01) | 0.00 | (0.01) | (0.01) |
| Non-GAAP Tax Benefit | (0.01) | (0.00) | - | 0.01 | (0.00) | - | - | - | 1.29 | 1.30 | 0.09 |
| Non-GAAP diluted net income (loss) per share | \$ 0.28 | \$ 0.64 | \$ 0.14 | \$ (0.02) | \$ 1.04 | \$ (0.27) | \$ (0.26) | \$ (0.15) | \$ (0.18) | \$ (0.86) | \$ (0.44) |
| Shares used to compute diluted earnings per share | 19,989 | 20,080 | 20,185 | 19,793 | 20,027 | 19,863 | 19,932 | 20,023 | 20,109 | 19,982 | 20,208 |